

Northern Virginia Office Market

Quarterly Leasing Activity Rises; Class A Continues to Outperform Market

Northern Virginia's office market modestly accelerated in the third quarter of 2022. Despite economic headwinds, including inflation and recessionary pressures, the office market showed a resistance to significant softening. Return-to-office momentum has grown following the Labor Day holiday, which will help real estate decision makers assess future workplace needs and reengage in real estate planning.

Net absorption measured 55,031 square feet in the third quarter, offsetting some of the occupancy lost in the previous quarter. Year-to-date net absorption measured negative 121,938 square feet. Positive quarterly occupancy resulted in a slight reduction to vacancy, which decreased 10 basis points from last quarter to 21.1%. However, over the last 12 months, vacancy has increased by 80 basis points, driven by low demand and a healthy construction pipeline

Despite the moderate decrease in vacancy and uneven recovery in net absorption, average asking rents continue to increase. Average asking rents appreciated by 1.1% over the last 12 months, reaching \$34.90/SF. Leasing activity has been on the rise through the third quarter, but this activity is not equitably distributed among all Northern Virginia's submarkets. Leasing activity was supported by large footprint renewals in the third quarter, headlined by Hilton's 220,000 square-foot renewal at 7930 Jones Branch Drive. This was the second largest lease signed in Northern Virginia since the start of the pandemic.

Current Conditions

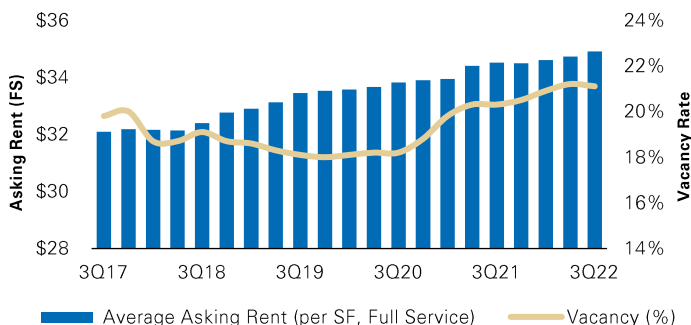
- Quarterly net absorption measured positive 55,031 square feet in the third quarter. This offsets some of the occupancy lost from the second quarter, resulting in year-to-date net absorption of negative 121,938 square feet.
- The overall vacancy rate was 21.1% at the end of the third quarter, up 80 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 third quarter.
- Asking rents rose to \$34.90/SF on the quarter and are up 1.1% from one year ago.

Market Summary

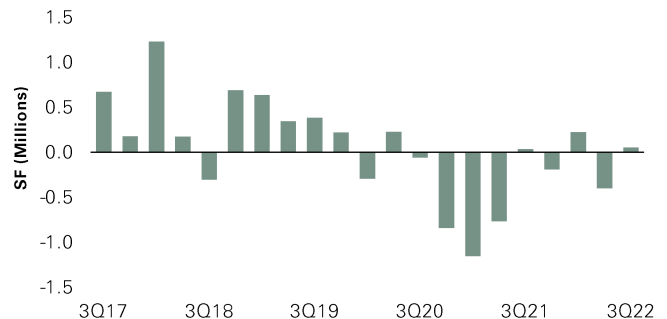
| | Current Quarter | Prior Quarter | Year Ago Period | 24-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF) | 165.7 M | 165.7M | 164.4 M | ↓ |
| Vacancy Rate | 21.1% | 21.2% | 20.3% | ↓ |
| Quarterly Net Absorption (SF) | 55,031 | -399,932 | 35,731 | ↑ |
| Average Asking Rent/SF | \$34.90 | \$34.72 | \$34.51 | ↑ |
| Under Construction (SF) | 1.4 M | 869,414 | 2.2 M | ↓ |
| Deliveries YTD (SF) | 1.4 M | 1.4 M | 679,000 | ↑ |

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q3 2022

Northern Virginia had no new construction deliveries in the third quarter, and no new buildings are expected to deliver this year. Amazon's HQ2 should deliver over 2 million square feet in early 2023. Although this delivery will be a boon for Northern Virginia, the east coast headquarters will be owner-occupied and therefore will not factor into Newmark's market statistics.

Two projects, located at 1875 Reston Row Plaza and 3401 Fairfax Drive, began construction and increased Northern Virginia's construction pipeline by 521,128 square feet. 3401 Fairfax, better known as Fuse at Mason Square, will be a dynamic innovation hub, housing offices, co-working space, academic facilities, and R&D labs. At the center of Arlington's Rosslyn-Ballston Corridor and anchored by George Mason University, Fuse will support the region's expanding technology sector and promote collaboration between Mason's researchers, students, and industry partners to accelerate digital innovation.

ESG Can Elevate the Competitive Position of Assets

Flight to quality remains prevalent in driving real estate demand, and though the benefits of modern space are supporting most of this momentum, the role of ESG, or environmental social governance, is a rising consideration for occupiers and investors. Businesses are increasingly cognizant of their carbon footprints and many firms are enacting corporate standards to limit their environmental footprints while also providing financial benefits. Fuse at Mason Square, currently under construction in Virginia Square, is attracting technology innovators. Fuse will be net-zero ready, featuring LEED Platinum certification, Fitwell 2-Star, RELI Resilience, and a green roof for energy-efficient heating and cooling. Environmental sensitivity has been growing in popularity in real estate for many years, but given current market conditions, it may become a stronger competitive advantage for business owners looking to attract tenants that value both green initiatives and the positive public relations gained with their customers.

The region's soon-to-be technology anchor, Amazon, is setting the standard for environmentally sensitive development through its HQ2 in Crystal City/Pentagon City. The entire HQ2 campus is designed for LEED Platinum certification, but unlike Fuse, the campus will be powered entirely by renewable energy provided by solar arrays totaling 45 megawatts of capacity, located on and off-site. The campus will also feature energy efficient heating and cooling systems, the ability to use rainwater and grey water for flush fixtures, cooling towers, and a pledge to be carbon neutral by 2040. Given the anticipated magnetism of Amazon in attracting similarly minded companies to the region, it is increasingly important for owners to consider the advantage of low carbon footprint buildings in competing for tenancy given current market conditions.

Class A Market Outperforms

After a weak second quarter, Northern Virginia's Class A market recorded a return of positive demand in the third quarter, with 66,399 square feet of absorption. This stands in contrast to the modestly negative absorption posted by the Class B market and reflects tenants' ongoing desire for high-quality space. Year-to-date net absorption for the Class A market measured 345,088 square feet, and the Class B market registered negative 455,786 square feet. Despite encouraging occupancy gains in 2022, the Class A vacancy rate has increased 120 basis points over the last year to 21.0%. Class A asking rents have held stable through 2022 and averaged \$37.18/SF during the third quarter, rising just under 0.2% over the past year.

Class B market fundamentals have been steadily softening for much of the last two years in Northern Virginia. Prior to the pandemic, however, Northern Virginia's Class B market had been exhibiting greater control over its market fundamentals.

Notable 3Q 2022 Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|----------------------------|------------------------------|-----------|---------------|-------------|
| Hilton Worldwide | 7930 Jones Branch Drive | Tysons | Lease Renewal | 220,000 |
| Boeing | 12701 Fair Lakes Circle | Fairfax | Lease Renewal | 118,780 |
| Maxar Technologies | 2325 Dulles Corner Boulevard | Herndon | Lease Renewal | 99,659 |
| GSA | 1700 N Moore Street | Rosslyn | Lease Renewal | 92,264 |
| Kimley-Horn and Associates | 11400 Commerce Park Drive | Reston | Lease Renewal | 56,710 |

Notable Recent Sales Transactions

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|------------------------|-------------------|--------------|----------|-------------|
| 7799 Leesburg Pike | Tysons Corner | \$50,000,000 | \$141 | 354,018 |
| 5680 King Centre Drive | Springfield/Burke | \$22,000,000 | \$195 | 113,063 |
| 1891 Metro Center Dr | Reston | \$17,000,000 | \$282 | 60,356 |
| 10700 Parkridge Blvd | Reston | \$14,850,000 | \$120 | 123,390 |

RESEARCH Q3 2022

Overall inventory for Northern Virginia's Class B office market has been declining since early 2016, due to the demolition of obsolete assets and conversion projects. Prior to the pandemic, the elimination of the market's most challenged office product had been correlated with the decline in Class B vacancy, which ultimately reached 19.7% in early 2020. Although the pace of inventory contraction in Northern Virginia's Class B market has remained consistent since 2020, vacancy has begun to increase, a symptom of the pandemic's impact on office demand and the trend toward flight-to-quality. At the close of the third quarter, Class B vacancy registered 23.0%, up 290 basis points from two years ago, but effectively unchanged from vacancy recorded five years ago.

Northern Virginia Outlook

Northern Virginia's office market showed modest recovery in the third quarter of 2022, registering positive absorption for the second time this year. While leasing activity is slowly building, expectations remain low relative to historical levels; however, there were several large lease renewals signed among public service, government contractors, and tech occupiers. Relatively strong leasing activity in the third quarter of 2022 is a positive indicator for the Northern Virginia market, but pressure among many employers to reduce their real estate footprints is expected to result in net occupancy loss for many firms when negotiating new leases. Newmark Research projects that Northern Virginia's vacancy will decrease from 21.1% to 20.4% by the third quarter of 2024. Throughout Northern Virginia, the average asking rent increased by 1.1% over the last year and marks the third continuous quarter of increase. Modest rent appreciation is likely to sustain, despite oversupply challenges that will continue in the market. While rent growth is promising given low demand,

concessions remain high regionally and effective rents continue to be under downward pressure. Tenants continue to seize leverage created by high availability throughout most submarkets. Tenants can generally expect generous concessions to last through at least mid-2023.

Northern Virginia's current construction pipeline measures 1.4 million square feet, with a prelease rate of 86.6%. The composition of Northern Virginia's pipeline is a contributing factor for this high rate. Prior to the delivery of Tysons Central, which delivered without any leases signed in the second quarter, Northern Virginia's overall prelease rate was just 40.3%. Speculative development projects, such as Tysons Central, will carry increased risk during this period of slow leasing and economic uncertainty, despite a heavy flight-to-quality trend seen across the market. At less than 1% of the existing inventory, the construction pipeline is modest. Given tenant preference for high-quality office space, Northern Virginia's market could support new development, especially if owners can attract strong preleasing rates.

Northern Virginia continues to build on its reputation as a hub for technology, government contractors, and cybersecurity firms. The ability to keep luring top-tier firms within these industries, in part due to the relatively friendly business environment in Northern Virginia, has been a driving factor for the area and present strong atmosphere to foster long-term tenants and growth within these industries

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 | 2019 Absorption (SF) | 2020 Absorption (SF) | 2021 Absorption (SF) | 3Q 2022 Absorption (SF) | YTD 2022 Absorption (SF) |
|--------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|--------------------------|
| Northern Virginia | 165,699,422 | 19.8% | 21.1% | 1,558,088 | -970,098 | -2,080,164 | 55,031 | -121,938 |
| Class A | 101,218,728 | 19.6% | 21.0% | 713,806 | -150,566 | -1,216,756 | 66,399 | 345,088 |
| Class B | 43,944,709 | 21.7% | 23.0% | 673,899 | -538,029 | -769,977 | -63,082 | -455,786 |
| Class C | 20,535,985 | 16.6% | 17.5% | 170,383 | -281,503 | -93,431 | 51,714 | -11,240 |

Market Statistics By Class

| | Total Inventory (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Overall Asking Rent (Price/SF) | 3Q 2022 Deliveries (SF) | YTD 2022 Deliveries (SF) | Under Construction (SF) |
|--------------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|-------------------------|
| Northern Virginia | 165,699,422 | \$37.18 | \$32.26 | \$34.90 | 0 | 1,413,023 | 1,390,542 |
| Class A | 101,218,728 | \$37.18 | NA | \$37.18 | 0 | 1,413,023 | 1,390,542 |
| Class B | 43,944,709 | NA | \$32.26 | \$32.26 | 0 | 0 | 0 |
| Class C | 20,535,985 | NA | NA | \$30.20 | 0 | 0 | 0 |

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

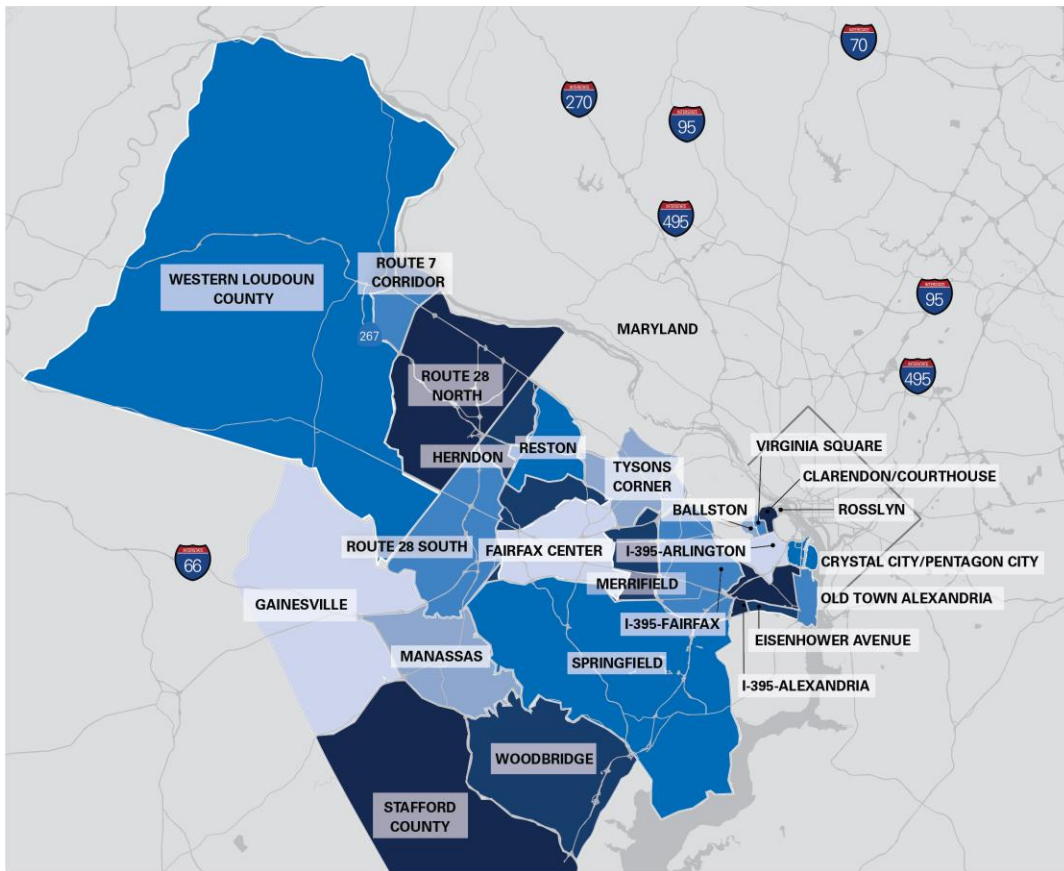
Submarket Statistics—All Classes

| | Total Inventory (SF) | Direct Vacancy Rate | Overall Vacancy Rate | 2019 Absorption (SF) | 2020 Absorption (SF) | 2021 Absorption (SF) | 3Q 2022 Absorption (SF) | YTD 2022 Absorption (SF) |
|-----------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|--------------------------|
| Northern Virginia | 165,699,422 | 19.8% | 21.1% | 1,558,088 | -970,098 | -2,080,164 | 55,031 | -121,938 |
| Ballston | 7,645,994 | 23.0% | 24.5% | 125,582 | 65,095 | -180,352 | 216,343 | 216,077 |
| Clarendon/Courthouse | 4,550,562 | 25.7% | 27.8% | 8,428 | -175,216 | -187,143 | -43,736 | -87,208 |
| Crystal City/Pentagon City | 12,585,674 | 23.2% | 25.6% | 282,070 | -24,886 | -1,141,430 | -284 | -67,422 |
| Eisenhower Avenue | 1,313,328 | 53.3% | 53.3% | 10,159 | -3,135 | -39,363 | 13,549 | 14,412 |
| Fairfax Center | 9,937,725 | 22.4% | 23.0% | 64,910 | -344,522 | 6,592 | 54,438 | 125,482 |
| Gainesville | 247,772 | 7.9% | 7.9% | -9,694 | 7,886 | 1,808 | 2,882 | 0 |
| Herndon | 11,589,113 | 22.9% | 24.2% | 245,642 | -132,779 | -326,156 | 22,354 | -233,039 |
| I-395 Corridor – Alexandria | 2,021,964 | 24.8% | 25.0% | 25,881 | -60,099 | 48,153 | -8,022 | -3,403 |
| I-395 Corridor – Arlington | 1,595,158 | 8.5% | 9.0% | 26,795 | 7,576 | -9,005 | -18,151 | -38,900 |
| I-395 Corridor – Fairfax | 4,195,444 | 27.5% | 27.9% | 166,877 | 18,234 | -4,897 | 69,662 | -24,209 |
| Manassas | 2,802,379 | 4.4% | 5.1% | 5,752 | -10,424 | 47,315 | -1,872 | 23,787 |
| Merrifield | 8,308,665 | 14.7% | 17.5% | -3,312 | 53,267 | 62,948 | -17,473 | -20,449 |
| Old Town Alexandria | 11,114,080 | 14.0% | 15.6% | 26,115 | -194,866 | -142,517 | -28,757 | -60,215 |
| Reston | 18,808,896 | 20.2% | 22.0% | -189,954 | -212,773 | -59,040 | -35,472 | 317,592 |
| Rosslyn | 9,304,192 | 20.0% | 21.4% | 271,222 | 100,643 | -166,948 | -6,251 | 139,878 |
| Route 28 North | 5,480,890 | 13.0% | 13.7% | -88,244 | 41,167 | -35,458 | -902 | 30,466 |
| Route 28 South | 11,561,987 | 14.8% | 15.6% | 125,385 | 103,142 | 15,627 | -66,695 | -55,694 |
| Route 7 Corridor | 5,162,290 | 11.9% | 12.0% | 41,444 | 41,540 | -17,379 | 33,081 | 12,263 |
| Springfield | 4,824,339 | 20.3% | 20.5% | 77,173 | -67,116 | 528,977 | 32,943 | -110,920 |
| Stafford County | 886,184 | 33.9% | 33.9% | 2,331 | -33,147 | 46,386 | -20,878 | -31,619 |
| Tysons | 28,642,933 | 22.2% | 23.2% | 482,664 | -129,377 | -445,135 | -175,338 | -302,575 |
| Virginia Square | 1,030,321 | 21.7% | 28.4% | -161,903 | 16,485 | -80,045 | -3,841 | -10,294 |
| Western Loudoun County | 795,188 | 2.0% | 2.0% | -3,744 | -13,650 | 2,256 | 17,987 | 4,804 |
| Woodbridge | 1,294,344 | 9.4% | 9.4% | 26,509 | -23,143 | -5,358 | 19,464 | 39,248 |

| Submarket Statistics—All Classes | | | | | | | |
|----------------------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|-------------------------|
| | Total Inventory (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Overall Asking Rent (Price/SF) | 3Q 2022 Deliveries (SF) | YTD 2022 Deliveries (SF) | Under Construction (SF) |
| Northern Virginia | 165,699,422 | \$37.18 | \$32.26 | \$34.90 | 0 | 1,413,023 | 1,390,542 |
| Ballston | 7,645,994 | \$44.49 | \$40.14 | \$42.44 | 0 | 0 | 191,034 |
| Clarendon/Courthouse | 4,550,562 | \$44.54 | \$39.24 | \$43.74 | 0 | 0 | 0 |
| Crystal City/Pentagon City | 12,585,674 | \$41.28 | \$37.00 | \$39.94 | 0 | 0 | 0 |
| Eisenhower Avenue | 1,313,328 | \$24.00 | \$25.00 | \$24.48 | 0 | 0 | 0 |
| Fairfax Center | 9,937,725 | \$30.03 | \$28.21 | \$27.96 | 0 | 0 | 0 |
| Gainesville | 247,772 | \$30.73 | \$22.00 | \$25.16 | 0 | 0 | 0 |
| Herndon | 11,589,113 | \$35.79 | \$25.82 | \$33.93 | 0 | 0 | 0 |
| I-395 Corridor – Alexandria | 2,021,964 | \$32.31 | \$30.75 | \$31.55 | 0 | 0 | 0 |
| I-395 Corridor – Arlington | 1,595,158 | \$31.39 | \$20.00 | \$26.91 | 0 | 0 | 0 |
| I-395 Corridor – Fairfax | 4,195,444 | \$32.58 | \$26.91 | \$28.00 | 0 | 0 | 0 |
| Manassas | 2,802,379 | \$25.72 | \$21.66 | \$23.08 | 0 | 0 | 0 |
| Merrifield | 8,308,665 | \$33.85 | \$32.03 | \$31.47 | 0 | 0 | 0 |
| Old Town Alexandria | 11,114,080 | \$41.13 | \$32.85 | \$37.76 | 0 | 0 | 0 |
| Reston | 18,808,896 | \$36.29 | \$27.91 | \$33.77 | 0 | 1,062,000 | 538,867 |
| Rosslyn | 9,304,192 | \$54.17 | \$41.04 | \$41.59 | 0 | 0 | 0 |
| Route 28 North | 5,480,890 | \$27.53 | \$24.90 | \$25.84 | 0 | 0 | 0 |
| Route 28 South | 11,561,987 | \$29.12 | \$24.36 | \$28.13 | 0 | 0 | 350,000 |
| Route 7 Corridor | 5,162,290 | \$30.15 | \$23.50 | \$28.69 | 0 | 0 | 0 |
| Springfield | 4,824,339 | \$38.23 | \$25.10 | \$30.68 | 0 | 0 | 0 |
| Stafford County | 886,184 | \$27.06 | \$24.50 | \$26.97 | 0 | 0 | 0 |
| Tysons | 28,642,933 | \$40.70 | \$33.45 | \$36.97 | 0 | 351,023 | 0 |
| Virginia Square | 1,030,321 | \$43.35 | NA | \$43.35 | 0 | 0 | 310,641 |
| Western Loudoun County | 795,188 | \$38.00 | \$32.02 | \$33.53 | 0 | 0 | 0 |
| Woodbridge | 1,294,344 | \$24.01 | \$22.33 | \$23.55 | 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@nrmk.com

Raymond Moussazadeh

Senior Research Analyst

t 202-664-5894

raymond.moussazadeh@nrmk.com

Adam Reiskin

Research Analyst

t 202-312-5763

adam.reiskin@nrmk.com

nrmk.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 nrmk.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.