



# Northern Virginia Office Market

## Quarterly Leasing Activity Rises; Offsetting Occupancy Losses This Year

Northern Virginia’s office market exhibited modest tightening in the fourth quarter of 2022 and ended the year with a second consecutive quarter of occupancy growth. Despite increased economic headwinds fueled by inflation, in conjunction with recessionary pressures, the office market displayed continued resistance to significant softening.

Net absorption measured 312,851 square feet in the fourth quarter of 2022, offsetting the occupancy losses incurred earlier in the year. Year-to-date absorption measured 209,689 square feet, marking the first time since the start of the pandemic that Northern Virginia ended the year with positive absorption. Positive quarterly occupancy resulted in a slight reduction in vacancy, which decreased 10 basis points from the last quarter, to 21.0%. However, overall vacancy remained steady during 2022, increasing only 50 basis points over the last 12 months.

Average asking rents appreciated 1.7% over the last 12 months, reaching a record high of \$35.08/SF. Leasing activity remained relatively strong during the fourth quarter, however, there is a continued lack of equitable distribution of this activity across all Northern Virginia’s submarkets. Leasing activity was supported by the US Patent and Trademark Office (PTO) renewal of 1.6 million square feet, and Boeing’s headquarters relocation to Arlington. It is important to note that although the PTO is recommitting to a significant amount of office space, this lease also represents an 800,000 square-foot downsizing, which will be absorbed in the third quarter of 2024.

### Current Conditions

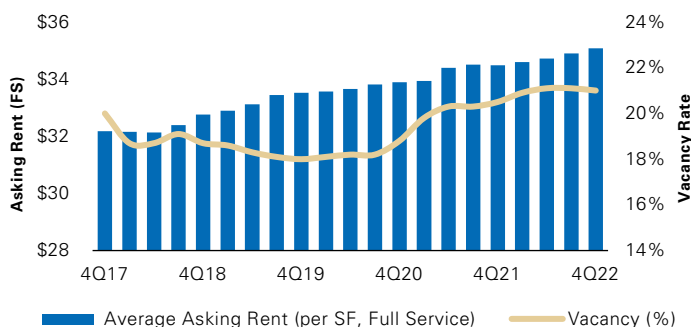
- Quarterly net absorption measured 312,851 square feet in the fourth quarter. This offsets some of the occupancy lost during the year, resulting in year-to-date net absorption of 209,689 square feet.
- The overall vacancy rate was 21.0% at the end of the fourth quarter, up 50 basis points from one year ago.
- Office space under construction, excluding renovations and owner-occupied buildings, totaled 1.1 million square feet at the end of the fourth quarter.
- Asking rents rose to \$35.08/SF on the quarter and are up 1.7% from one year ago.

### Market Summary

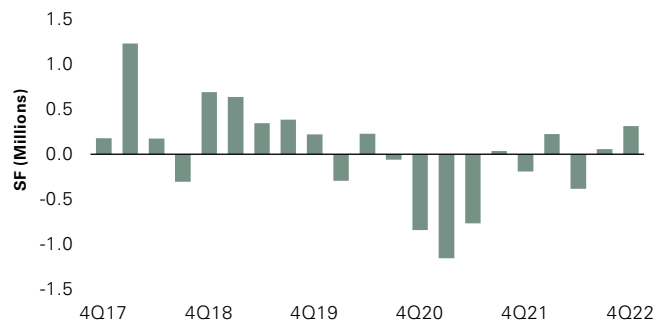
|                               | Current Quarter | Prior Quarter | Year Ago Period | 24-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory (SF)          | 166.3 M         | 165.7M        | 164.7 M         | ↓                 |
| Vacancy Rate                  | 21.0%           | 21.1%         | 20.5%           | ↓                 |
| Quarterly Net Absorption (SF) | 312.851         | 57,749        | -192,219        | ↓                 |
| Average Asking Rent/SF        | \$35.08         | \$34.90       | \$34.49         | ↑                 |
| Under Construction (SF)       | 1.1 M           | 1.4 M         | 2.0 M           | ↓                 |
| Deliveries YTD (SF)           | 1.8 M           | 1.4 M         | 939,000         | ↑                 |

### Market Analysis

#### ASKING RENT AND VACANCY RATE



#### NET ABSORPTION



## RESEARCH Q4 2022

Northern Virginia's construction pipeline remains healthy despite recessionary headwinds and increased construction costs. Not including owner-occupied buildings, there are currently five projects under construction, totaling 1.1 million square feet, all expected to deliver in late 2023 and early 2024. There was one delivery this quarter, at 4860 Stonecroft Boulevard, in the Route 28 South submarket. Measuring 350,000 square feet, it was fully preleased by the Central Intelligence Agency. There are two deliveries scheduled for the first quarter of 2023, both for Amazon's HQ2. However, these projects do not factor into Newmark's market statistics. These buildings are noteworthy, though, for the region's development and economic growth.

### Long-Awaited Silver Line Extension opens in Loudoun, Fairfax Counties

Thirteen years after the start of the project and five years after the completion of Phase 1, WMATA's Silver Line is finally complete. Phase II opened on November 15th, adding six additional stops, with the most essential being Dulles Airport. Initial discussions for the Silver Line began in 1962, the same year Dulles Airport was set to open. Initial plans called to have a rail service directly to the airport but were ultimately ruled out due to claims that it would not carry sufficient commuter traffic due to the lower populations in suburbs beyond Arlington at that time. The approved route would pass through heavily populated areas of Arlington and Fairfax Counties, leading to the creation of the Orange Line just a few years later.

Arlington has benefitted from significant private and public investments for densifying its public transit-oriented commercial nodes. As commercial and residential growth has continued to sprawl westward, greater developable opportunities have emerged along the Dulles Toll Road and in Loudoun County. With the Silver Line operating in full effect, there is optimism for regional growth after otherwise slow development.

Phase I brought considerable tenants, such as Google and Capital One, to the fast-growing suburban commercial nodes of Tysons and Reston. In recent years, a noteworthy share of commercial growth and office demand has been concentrated along the Dulles Toll Road and Route 28 Corridors, which now have the added benefit of greater transit access. This may elevate the competitive advantage of Silver Line adjacent markets.

In the first two weeks of operation, the six new stations collectively welcomed 61,405 riders. While Dulles remains the most popular station along Phase 2, the addition of reliable transportation has many focused on the changes to be implemented within their cities. Residents in Loudoun are primed for a different type of suburban development comprised of mixed-use and high-rise apartments; a significant change for an area where single-family homes make up more than 80% of the housing options. Development planning is estimated to be less complex due to the large empty parcels close to the Metrorail stations.

### Conversions Gain Momentum as Office Construction Activity Slows

Northern Virginia's construction pipeline is at a healthy level, although recessionary headwinds have begun softening future developments for office space. Tenant flight to quality continues to remain a strong driving force for decision makers as they adapt to the hybrid work environment, causing many office assets to become obsolete. This has forced owners to search for alternate ways to maximize asset values. Conversions remain a strong alternative for creating higher value uses for offices, such as data centers, or multifamily.

Over the past 12 months, three office-to-multifamily conversion projects broke ground and have removed 588,158 square feet of aging office space from the market, mostly concentrated in Merrifield and the I-395 Corridor submarkets.

## Notable 4Q 2022 Lease Transactions

| Tenant                         | Building                | Submarket           | Type            | Square Feet |
|--------------------------------|-------------------------|---------------------|-----------------|-------------|
| US Patent and Trademark Office | 600 Dulany Street       | Old Town Alexandria | Lease Renewal   | 1,623,490   |
| Google                         | 1900 Reston Metro Plaza | Reston              | Lease Expansion | 54,114      |
| Apogee                         | 4201 Wilson Boulevard   | Ballston            | New Lease       | 46,333      |
| Huntington Ingalls Industries  | 2451 Crystal Drive      | Crystal City        | New Lease       | 36,809      |
| FTS International              | 14151 Newbrook Drive    | Rt. 28 South        | New Lease       | 28,824      |

## Notable Recent Sales Transactions

| Building                 | Submarket | Sale Price   | Price/SF | Square Feet |
|--------------------------|-----------|--------------|----------|-------------|
| 1776 Wilson Blvd         | Rosslyn   | 59,450,000   | \$416.70 | 142,677     |
| 1901 N Moore St          | Rosslyn   | 55,500,000   | \$385.82 | 143,848     |
| 2300 Dulles Station Blvd | Herndon   | 51,500,000   | \$288.95 | 178,291     |
| 12700 Sunrise Valley Dr  | Reston    | \$13,000,000 | \$136.27 | 95,400      |

## RESEARCH Q4 2022

The conversions have altered the market in various ways, most notably reducing vacancy by removing outdated office assets from inventory. Most recently, the former RCA building at 1901 N Moore St was acquired for residential conversion, for \$55.5 million, or \$131,205 per proposed unit. The conversion pipeline in Northern Virginia remains healthy with 17 projects slated for conversion, 12 of which are currently planned for future multifamily use.

While some investors are in the market for non-traditional assets and conversion targets, traditional office investment sales activity is quiet. The 12-month trailing total volume currently measures \$1.1 billion. Depressed investment activity affected by recessionary fears have caused increased pressure on pricing in Northern Virginia. The single largest office sale not sold for conversion this quarter was 1776 Wilson Blvd for \$59.5 million, or \$417/SF. In a joint venture, Lincoln Property Company and Oaktree Capital Management purchased the building from Invesco Advisors.

### Northern Virginia Outlook

Northern Virginia's office market showed modest signs of recovery in the fourth quarter. Leasing velocity specifically for new leases and relocations increased slightly. Several significant long-term renewals were also executed, signaling that tenants are more confident in making long term real estate decisions, while also weighing future space needs and hybrid work models. Northern Virginia's overall vacancy rate has been relatively stable over the past year; however, vacancy continues to climb nominally year over year. Concerningly, sublease availability rose in the quarter, signaling that occupiers are not finished rightsizing their real estate needs. It is likely that given elevated sublease availability and slow return-to-office momentum through the

quarter that steady consolidations and occupancy losses among suburban tenants are likely in the period ahead. However, economic engines are boosting office-using labor and office inventory contraction could moderate the impact of occupancy losses on vacancy rates. Newmark Research projects that Northern Virginia's vacancy will decrease from 21.0% to 20.4% by the end of 2024. The market's asking rental rate rose 1.7% over the last year, which marks a fourth consecutive quarter of increase. While rent growth is promising given low demand, concessions remain relevant regionally, causing downward pressure on effective rents. Tenants continue to seize leverage created by increased availability throughout most submarkets. Tenants can generally expect concessions to last through at least mid-2023.

Northern Virginia's current development pipeline measures 1.1 million square feet, with a prelease rate of 28.9%. At less than 1% of the existing inventory, the pipeline remains modest. The market is unlikely to see a significant increase in groundbreakings within the next 12 months, considering the high cost of construction and recessionary pressures.

Despite anticipated recessionary safeguarding among potential tenants, and the increased construction costs seen in Northern Virginia this year, the area remains a beacon for growth in several sectors, including technology, government, and cybersecurity firms. As tenants strive to balance the changing landscape of worker needs, they remain bullish on leasing in the Northern Virginia area.

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) | 4Q 2022 Absorption (SF) | YTD 2022 Absorption (SF) |
|--------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|--------------------------|
| <b>Northern Virginia</b> | <b>166,319,977</b>   | <b>19.8%</b>        | <b>21.0%</b>         | <b>1,558,088</b>     | <b>-970,098</b>      | <b>-2,080,164</b>    | <b>312,851</b>          | <b>209,689</b>           |
| Class A                  | 102,176,626          | 19.5%               | 20.8%                | 713,806              | -150,566             | -1,216,756           | 344,315                 | 690,412                  |
| Class B                  | 43,828,361           | 21.9%               | 23.3%                | 673,899              | -538,029             | -769,977             | -43,565                 | -463,175                 |
| Class C                  | 20,314,990           | 16.7%               | 16.9%                | 170,383              | -281,503             | -93,431              | 12,101                  | -17,548                  |

### Market Statistics By Class

|                          | Total Inventory (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Overall Asking Rent (Price/SF) | 4Q 2022 Deliveries (SF) | YTD 2022 Deliveries (SF) | Under Construction (SF) |
|--------------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|-------------------------|
| <b>Northern Virginia</b> | <b>166,319,977</b>   | <b>\$37.36</b>                 | <b>\$32.33</b>                 | <b>\$35.08</b>                 | <b>350,000</b>          | <b>1,772,237</b>         | <b>1,074,817</b>        |
| Class A                  | 102,176,626          | \$37.36                        | NA                             | \$37.42                        | 350,000                 | 1,772,237                | 1,074,817               |
| Class B                  | 43,828,361           | NA                             | \$32.33                        | \$32.33                        | 0                       | 0                        | 0                       |
| Class C                  | 20,314,990           | NA                             | NA                             | \$29.36                        | 0                       | 0                        | 0                       |

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

RESEARCH Q4 2022

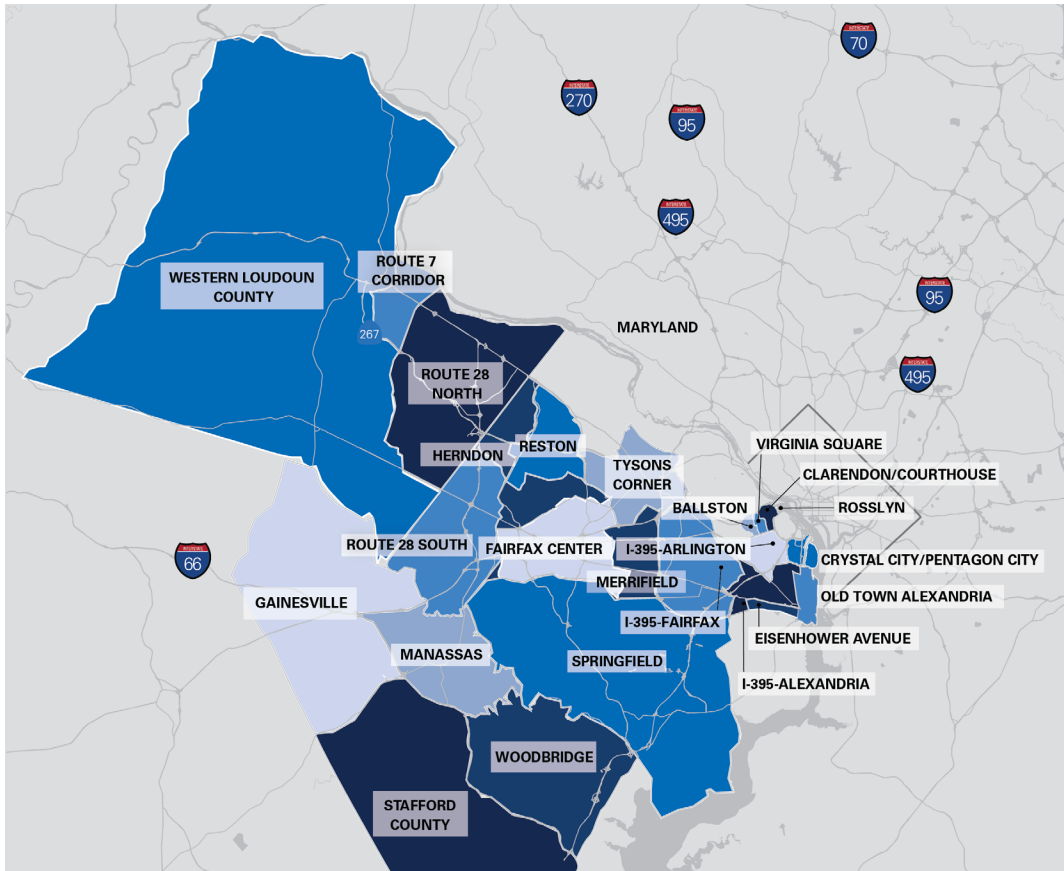
Submarket Statistics—All Classes

|                             | Total Inventory (SF) | Direct Vacancy Rate | Overall Vacancy Rate | 2019 Absorption (SF) | 2020 Absorption (SF) | 2021 Absorption (SF) | 4Q 2022 Absorption (SF) | YTD 2022 Absorption (SF) |
|-----------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|-------------------------|--------------------------|
| <b>Northern Virginia</b>    | <b>166,319,977</b>   | <b>19.9%</b>        | <b>21.0%</b>         | <b>1,558,088</b>     | <b>-970,098</b>      | <b>-2,080,164</b>    | <b>312,851</b>          | <b>209,689</b>           |
| Ballston                    | 7,645,994            | 23.9%               | 25.5%                | 125,582              | 65,095               | -180,352             | -71,141                 | 144,936                  |
| Clarendon/Courthouse        | 4,550,562            | 27.0%               | 29.1%                | 8,428                | -175,216             | -187,143             | -56,222                 | -143,430                 |
| Crystal City/Pentagon City  | 12,676,256           | 23.5%               | 25.3%                | 282,070              | -24,886              | -1,141,430           | 27,952                  | -39,470                  |
| Eisenhower Avenue           | 1,313,328            | 53.0%               | 53.3%                | 10,159               | -3,135               | -39,363              | 0                       | 14,412                   |
| Fairfax Center              | 9,948,521            | 22.5%               | 22.9%                | 64,910               | -344,522             | 6,592                | 17,991                  | 143,473                  |
| Gainesville                 | 247,772              | 7.9%                | 7.9%                 | -9,694               | 7,886                | 1,808                | 0                       | 0                        |
| Herndon                     | 10,546,395           | 22.6%               | 24.3%                | 245,642              | -132,779             | -326,156             | 12,691                  | -192,264                 |
| I-395 Corridor – Alexandria | 2,022,172            | 24.1%               | 24.1%                | 25,881               | -60,099              | 48,153               | 17,373                  | 13,970                   |
| I-395 Corridor – Arlington  | 1,595,158            | 9.0%                | 9.5%                 | 26,795               | 7,576                | -9,005               | -7,588                  | -46,488                  |
| I-395 Corridor – Fairfax    | 4,195,444            | 27.2%               | 27.6%                | 166,877              | 18,234               | -4,897               | 13,656                  | -10,553                  |
| Manassas                    | 2,802,379            | 4.6%                | 5.2%                 | 5,752                | -10,424              | 47,315               | -4,258                  | 19,529                   |
| Merrifield                  | 8,308,665            | 15.4%               | 17.7%                | -3,312               | 53,267               | 62,948               | -16,848                 | -37,297                  |
| Old Town Alexandria         | 11,121,095           | 14.7%               | 16.2%                | 26,115               | -194,866             | -142,517             | -77,617                 | -121,774                 |
| Reston                      | 18,812,599           | 18.8%               | 20.4%                | -189,954             | -212,773             | -59,040              | 372,864                 | 617,809                  |
| Rosslyn                     | 9,413,671            | 21.2%               | 21.8%                | 271,222              | 100,643              | -166,948             | 48,294                  | 188,172                  |
| Route 28 North              | 5,657,873            | 13.7%               | 14.3%                | -88,244              | 41,167               | -35,458              | 2,737                   | 33,203                   |
| Route 28 South              | 12,814,652           | 14.5%               | 15.4%                | 125,385              | 103,142              | 15,627               | 82,218                  | -22,198                  |
| Route 7 Corridor            | 5,162,290            | 11.3%               | 11.4%                | 41,444               | 41,540               | -17,379              | -21,394                 | 41,372                   |
| Springfield                 | 4,824,339            | 20.7%               | 20.9%                | 77,173               | -67,116              | 528,977              | -20,541                 | -131,461                 |
| Stafford County             | 886,184              | 29.5%               | 29.5%                | 2,331                | -33,147              | 46,386               | -6,522                  | 7,359                    |
| Tysons                      | 28,654,775           | 22.2%               | 23.2%                | 482,664              | -129,377             | -445,135             | 6,451                   | -296,124                 |
| Virginia Square             | 1,030,321            | 21.6%               | 28.4%                | -161,903             | 16,485               | -80,045              | 270                     | -10,024                  |
| Western Loudoun County      | 795,188              | 1.9%                | 2.4%                 | -3,744               | -13,650              | 2,256                | -2,915                  | 1,889                    |
| Woodbridge                  | 1,294,344            | 9.8%                | 9.8%                 | 26,509               | -23,143              | -5,358               | -4,600                  | 34,648                   |

| Submarket Statistics—All Classes |                      |                                |                                |                                |                         |                          |                         |
|----------------------------------|----------------------|--------------------------------|--------------------------------|--------------------------------|-------------------------|--------------------------|-------------------------|
|                                  | Total Inventory (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Overall Asking Rent (Price/SF) | 4Q 2022 Deliveries (SF) | YTD 2022 Deliveries (SF) | Under Construction (SF) |
| <b>Northern Virginia</b>         | <b>166,319,977</b>   | <b>\$37.36</b>                 | <b>\$32.33</b>                 | <b>\$35.08</b>                 | <b>350,000</b>          | <b>1,772,237</b>         | <b>1,074,817</b>        |
| Ballston                         | 7,645,994            | \$44.25                        | \$40.12                        | \$42.29                        | 0                       | 0                        | 191,034                 |
| Clarendon/Courthouse             | 4,550,562            | \$43.97                        | \$39.59                        | \$43.46                        | 0                       | 0                        | 0                       |
| Crystal City/Pentagon City       | 12,676,256           | \$40.67                        | \$36.98                        | \$39.62                        | 0                       | 0                        | 0                       |
| Eisenhower Avenue                | 1,313,328            | \$30.93                        | \$25.50                        | \$28.15                        | 0                       | 0                        | 0                       |
| Fairfax Center                   | 9,948,521            | \$30.62                        | \$28.43                        | \$28.25                        | 0                       | 0                        | 0                       |
| Gainesville                      | 247,772              | \$30.73                        | \$22.00                        | \$25.16                        | 0                       | 0                        | 0                       |
| Herndon                          | 10,546,395           | \$35.67                        | \$25.99                        | \$33.74                        | 0                       | 0                        | 0                       |
| I-395 Corridor – Alexandria      | 2,022,172            | \$32.27                        | \$30.34                        | \$31.32                        | 0                       | 0                        | 0                       |
| I-395 Corridor – Arlington       | 1,595,158            | \$30.94                        | \$20.00                        | \$26.58                        | 0                       | 0                        | 0                       |
| I-395 Corridor – Fairfax         | 4,195,444            | \$32.49                        | \$26.95                        | \$27.88                        | 0                       | 0                        | 0                       |
| Manassas                         | 2,802,379            | \$26.28                        | \$21.54                        | \$23.42                        | 0                       | 0                        | 0                       |
| Merrifield                       | 8,308,665            | \$33.84                        | \$32.02                        | \$31.62                        | 0                       | 0                        | 0                       |
| Old Town Alexandria              | 11,121,095           | \$40.79                        | \$33.13                        | \$37.39                        | 0                       | 0                        | 0                       |
| Reston                           | 18,812,599           | \$37.35                        | \$28.41                        | \$35.00                        | 0                       | 1,062,000                | 573,142                 |
| Rosslyn                          | 9,413,671            | \$54.19                        | \$41.33                        | \$41.13                        | 0                       | 0                        | 0                       |
| Route 28 North                   | 5,657,873            | \$28.20                        | \$24.92                        | \$26.52                        | 0                       | 0                        | 0                       |
| Route 28 South                   | 12,814,652           | \$29.46                        | \$24.59                        | \$28.51                        | 350,000                 | 350,000                  | 0                       |
| Route 7 Corridor                 | 5,162,290            | \$30.17                        | \$22.82                        | \$28.78                        | 0                       | 0                        | 0                       |
| Springfield                      | 4,824,339            | \$37.90                        | \$25.73                        | \$31.28                        | 0                       | 0                        | 0                       |
| Stafford County                  | 886,184              | \$26.91                        | \$24.50                        | \$26.82                        | 0                       | 0                        | 0                       |
| Tysons                           | 28,654,775           | \$40.91                        | \$33.13                        | \$37.07                        | 0                       | 360,237                  | 0                       |
| Virginia Square                  | 1,030,321            | \$43.35                        | NA                             | \$43.28                        | 0                       | 0                        | 310,641                 |
| Western Loudoun County           | 795,188              | \$38.00                        | \$26.65                        | \$30.65                        | 0                       | 0                        | 0                       |
| Woodbridge                       | 1,294,344            | \$24.42                        | \$22.45                        | \$23.83                        | 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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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](http://nrmk.com/research).

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