

3Q23

# Northern Virginia Office Market Overview

NEWMARK

# Market Observations

## Economy

- The region’s labor market remained historically strong amid shifting macroeconomic conditions. August’s 2.6% unemployment rate was significantly lower than the 4.2% 10-year historical average
- Year-over-year, job gains have been most pronounced in the education and health industry with an impressive 10.4% growth, followed by construction with a 3.7% growth.
- Business and Professional services remains the largest industry in the region, containing almost 29% of the regional workforce, followed by the Government at 15%.

## Major Transactions

- Sales volume remained modest during Q3 2023, totaling \$261 million across 83 transactions. This is much lower than a year ago, when the market saw \$553 million of sales volume across 154 transactions in Q3 2022.
- The largest sale during the quarter was Courthouse Square in Old Town Alexandria. The five-story, 120,000 square-foot office building was sold by Brookfield Asset Management to Melrose Solomon Enterprises for \$29.5 million, or \$245.77 per square foot.
- The sale with the highest price per square foot was Reston Metro Center Two. The two-story, 64,000 square-foot property, located at 12180 Sunrise Valley Drive within the Reston submarket, was sold by CTO Realty Growth Inc to Real Estate Value Advisors for \$18.5 million, or \$287.63 per square foot.

## Leasing Market Fundamentals

- Negative absorption continues to pile on, as the market experienced 185,000 square feet of negative net absorption during the quarter. This marks the third straight quarter of negative net absorption, creating a total of almost 1.3 million square feet of negative net absorption during 2023.
- Vacancy and rents both increased year-over-year. Vacancy increased 50 basis points to a historical high of 21.3%. Average asking rents ended the quarter near the all-time high at \$35.34 per square foot, up \$0.39 year-over-year, although down \$0.14 quarter-over-quarter.
- There were five properties totaling 1.1 million square feet under construction to end Q3 2023. This marked the fourth consecutive quarter with no new buildings delivering or breaking ground.

## Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Rent growth has begun to creep back up over recent quarters after staying relatively flat since 2020 and is now 4.5% higher than Q1 2020. This rent growth will likely continue as the market returns to normalcy.
- Fewer landlords appear to have capital for concessions in order to entice tenants, contributing to the recent slowdown in deal volume. This trend is likely to continue in the short-term.

1. Economy
2. Leasing Market Fundamentals



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# Economy

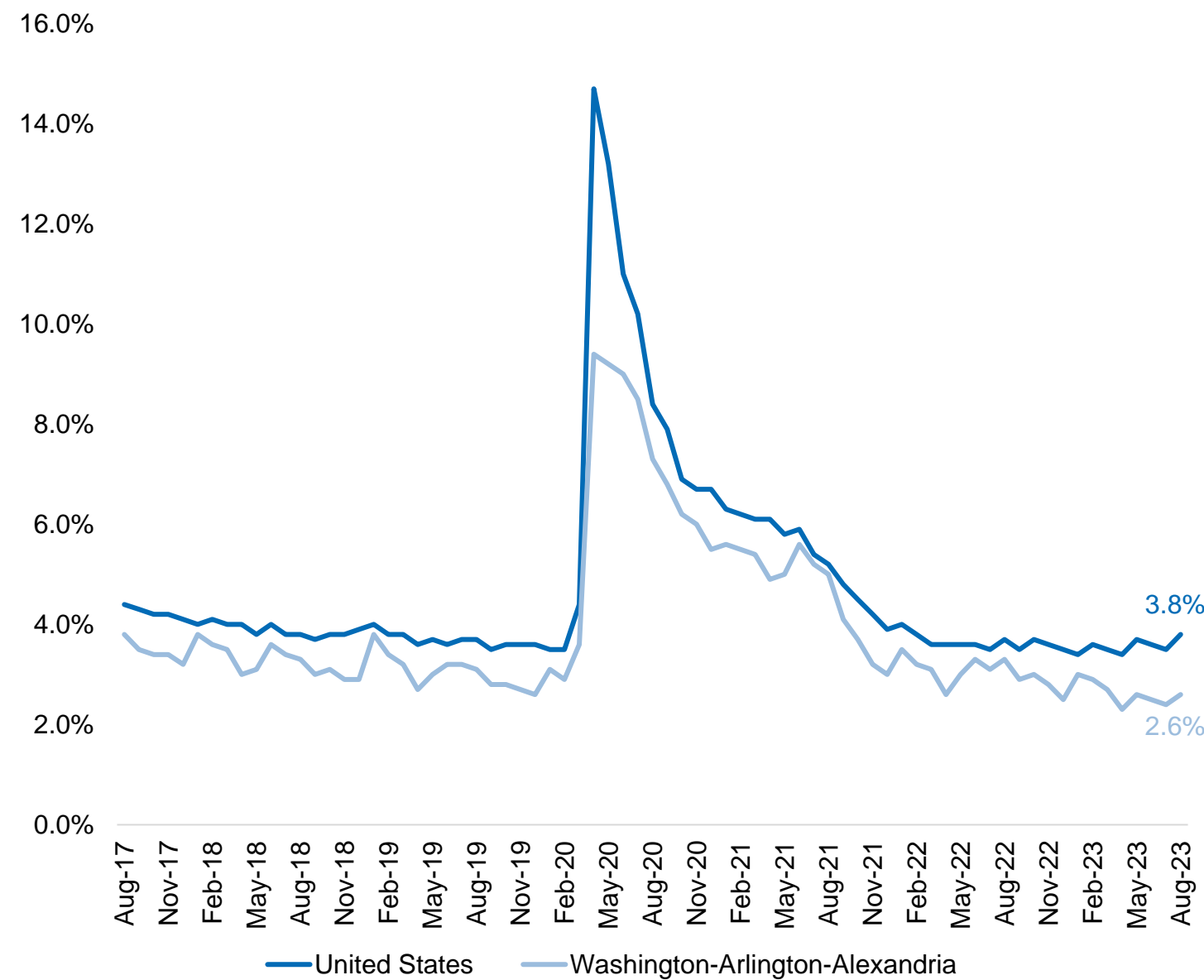




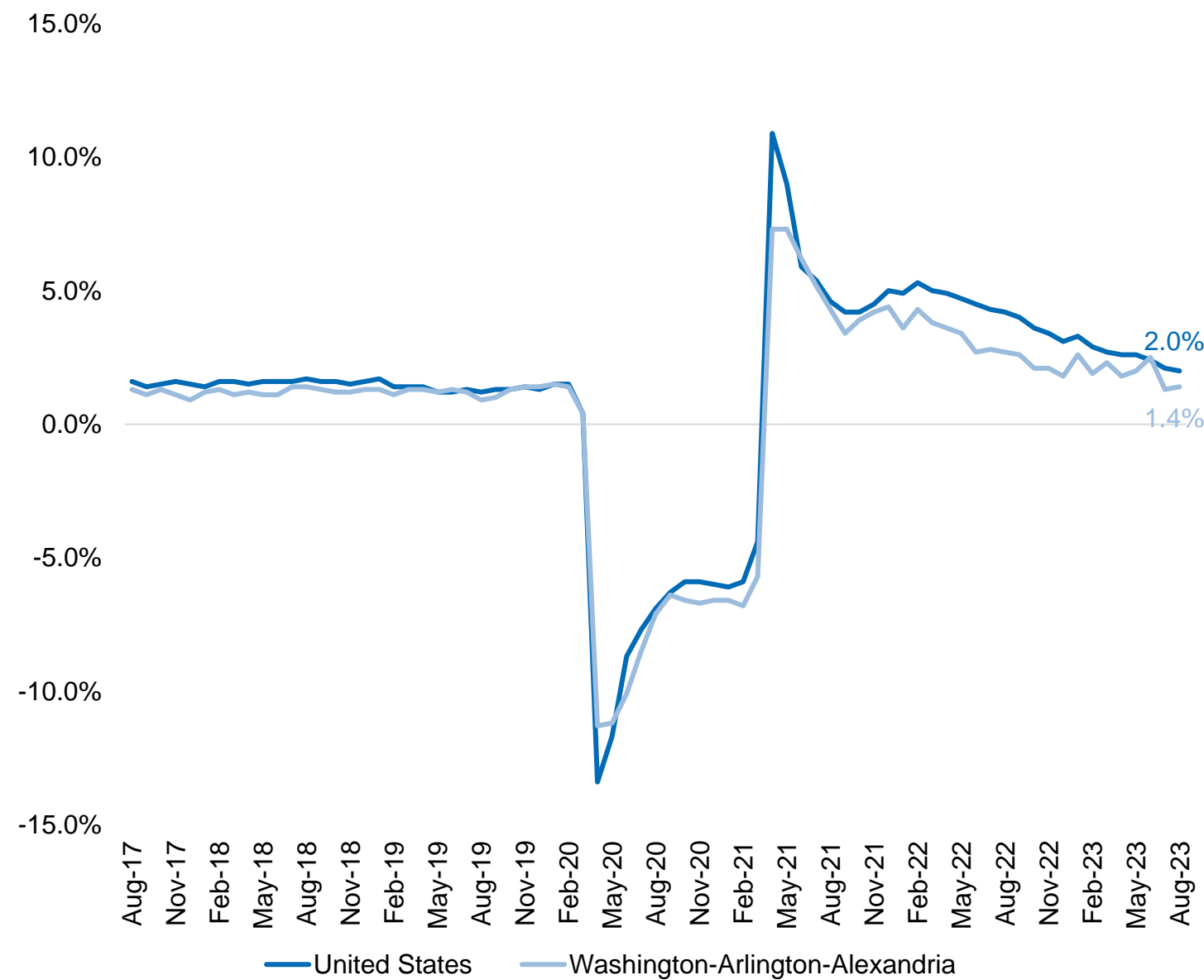
# Metro Employment Growth Is An Encouraging Tailwind

The region's labor market currently is tied for 3<sup>rd</sup> lowest unemployment rate among all large U.S. metros. Washington, D.C.'s metro unemployment rate is 120 basis points below the national rate.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



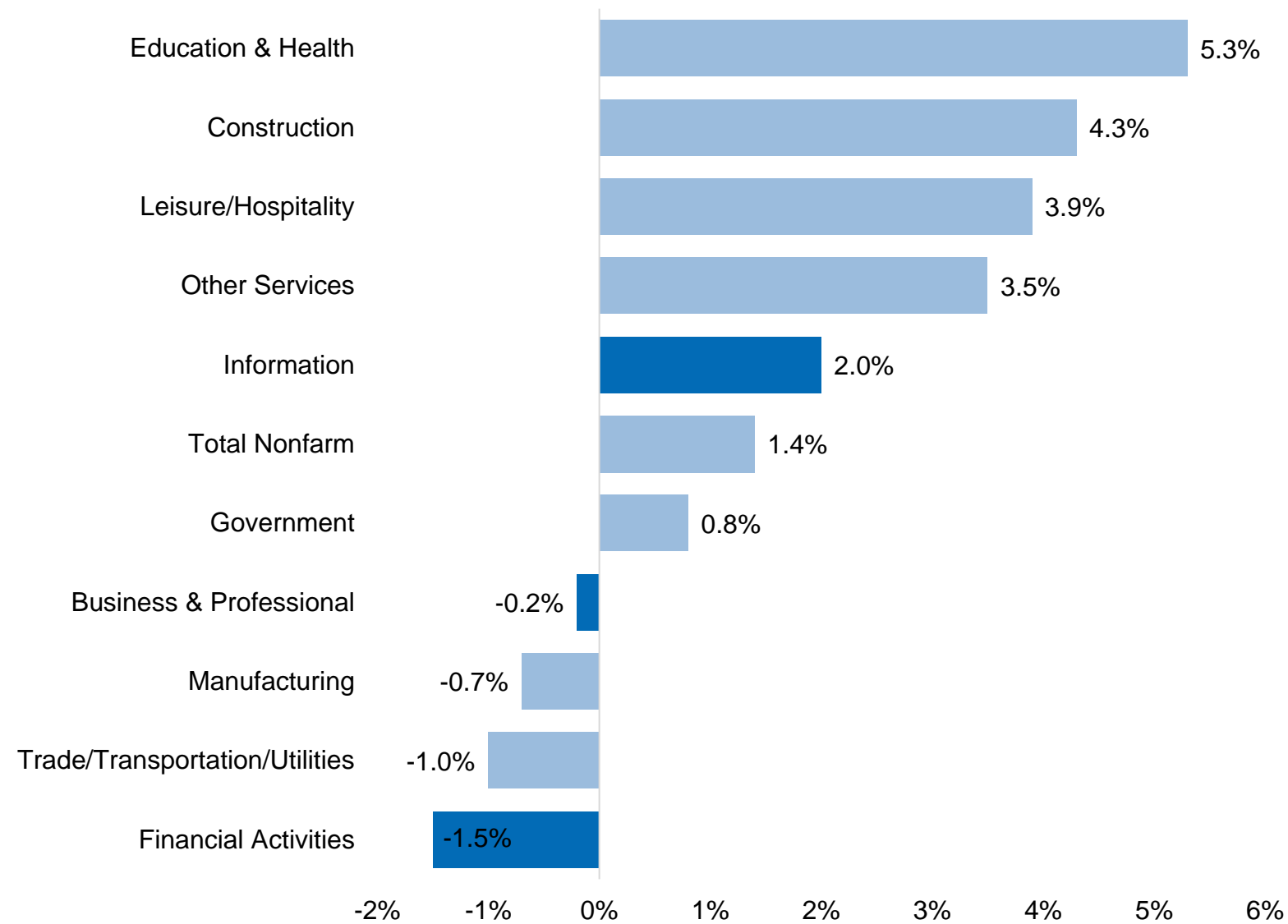
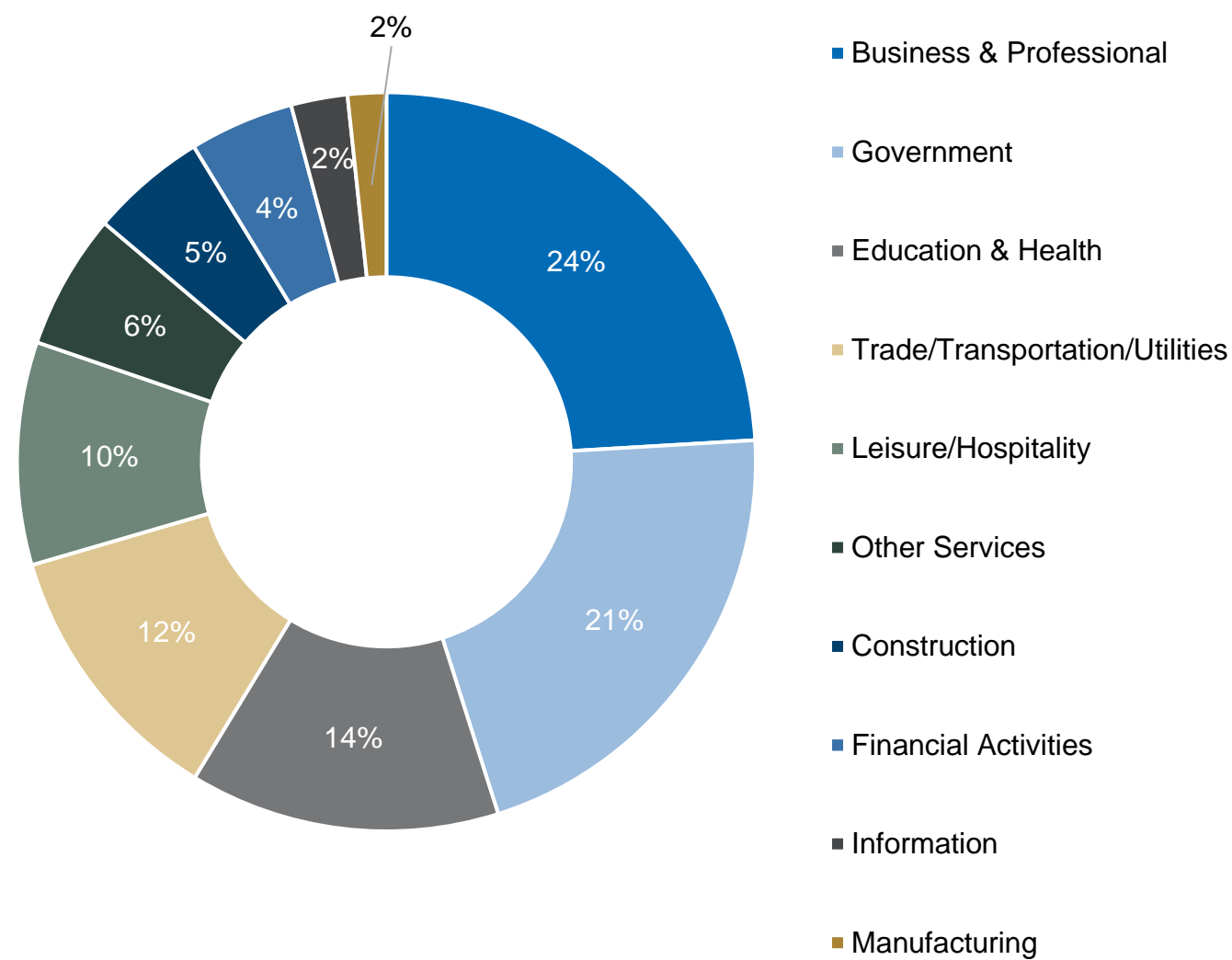
Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

# Job Growth Driven by Education & Health, Construction, and Hospitality Demand

The Business/Professional and Government industries remain the top regional industries, constituting almost half of the employees in the region. With both industries being large office-users, this provides optimism for the stability of the office market going forward.

Employment by Industry, August 2023

Employment Growth by Industry, 12-Month % Change, August 2023

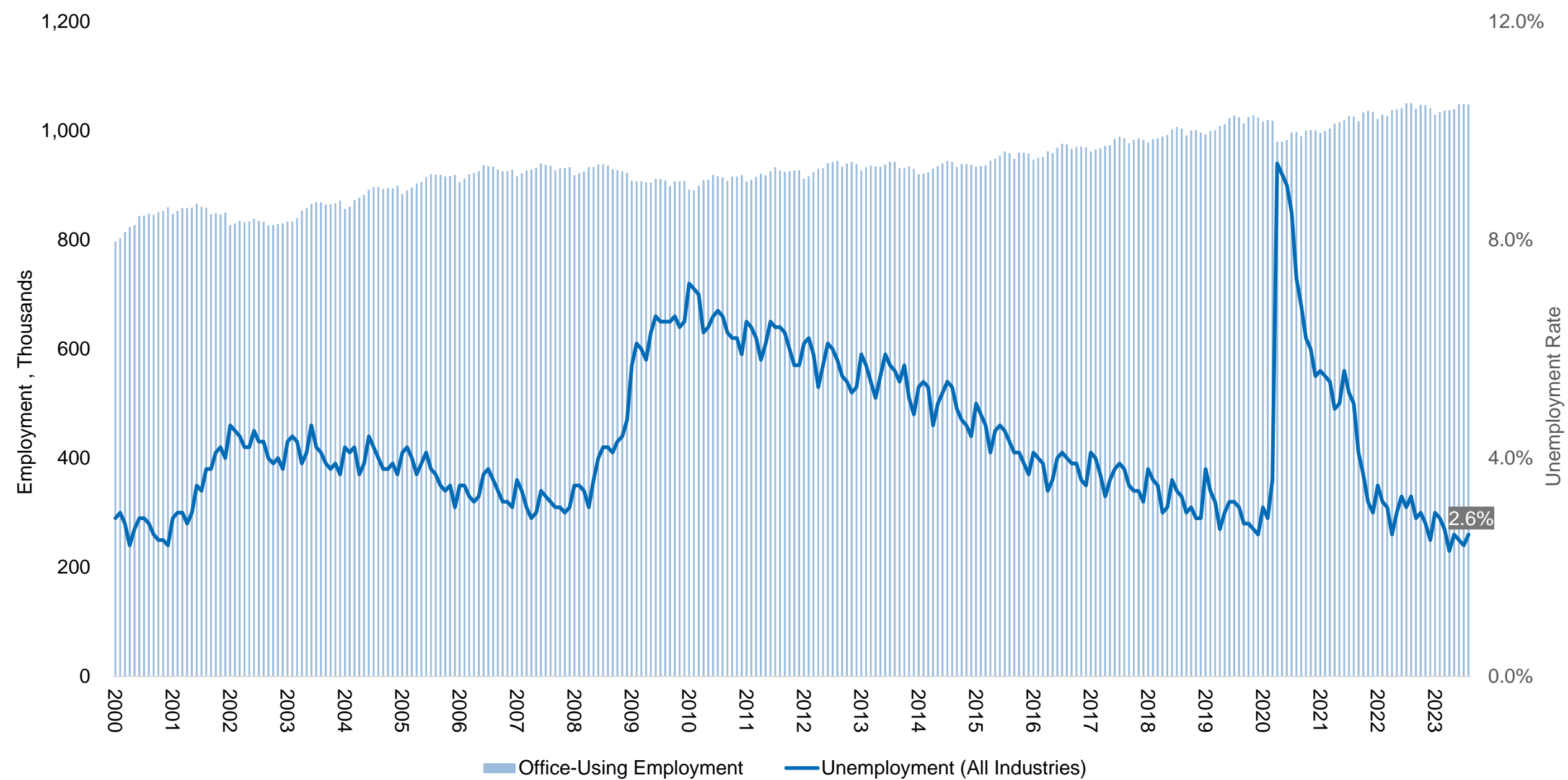


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

# Overall Office-Using Employment Has Rebounded

The number of office-using jobs has rebounded and even exceeded pre-pandemic levels. Total office-using job totals are currently 2.3% greater than office employment in summer 2019 and 7.0% greater than the pandemic-induced employment trough in April 2020.

Office-Using Employment\* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria  
Note: August 2023 data is preliminary.  
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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# Leasing Market Fundamentals

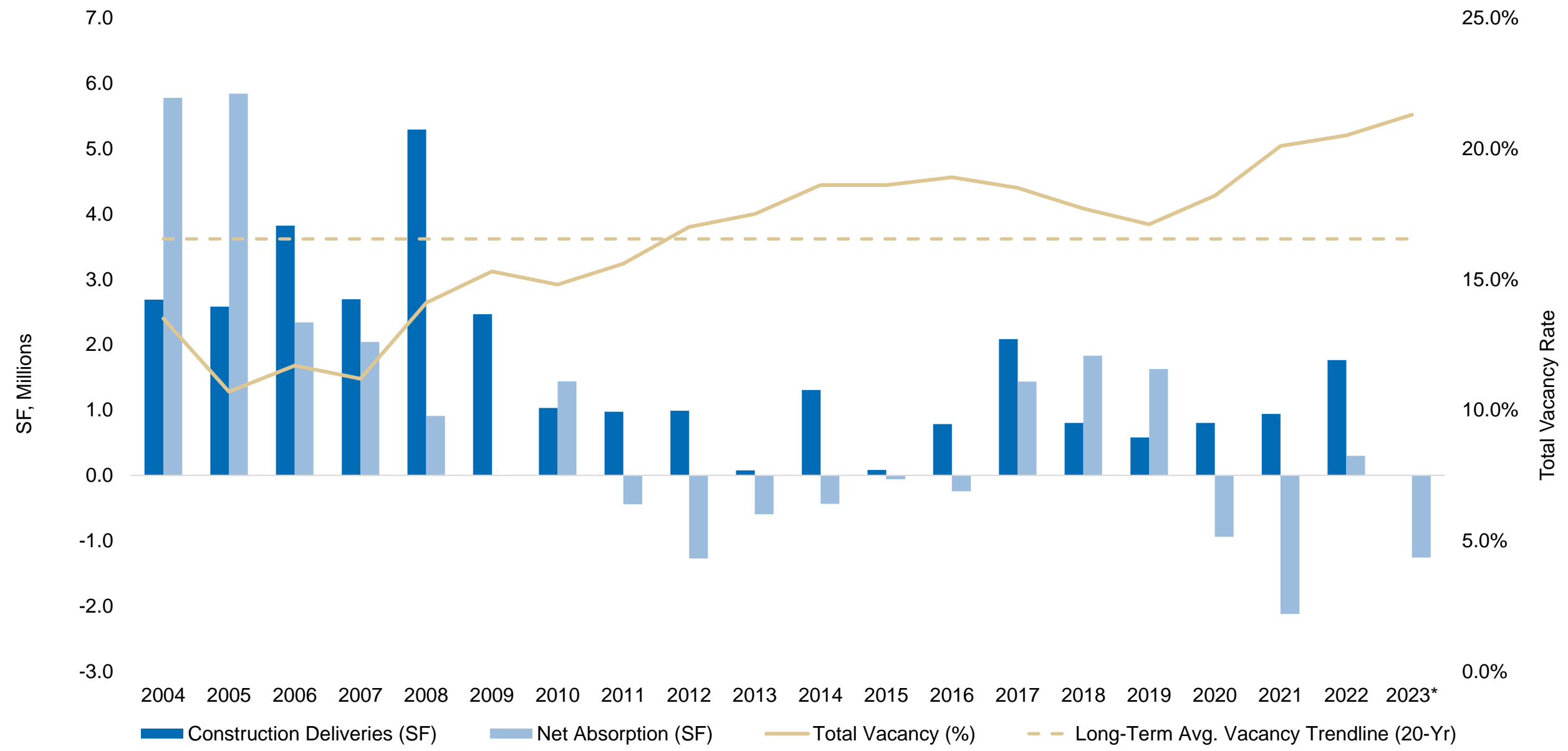




# Vacancy Rises While New Deliveries Are Tempered

The vacancy rate increased to 21.3% in the third quarter of 2023, up 20 basis points quarter-over-quarter and 50 basis points year-over-year. The lack of new speculative office construction is advantageous in helping to balance supply with waning demand.

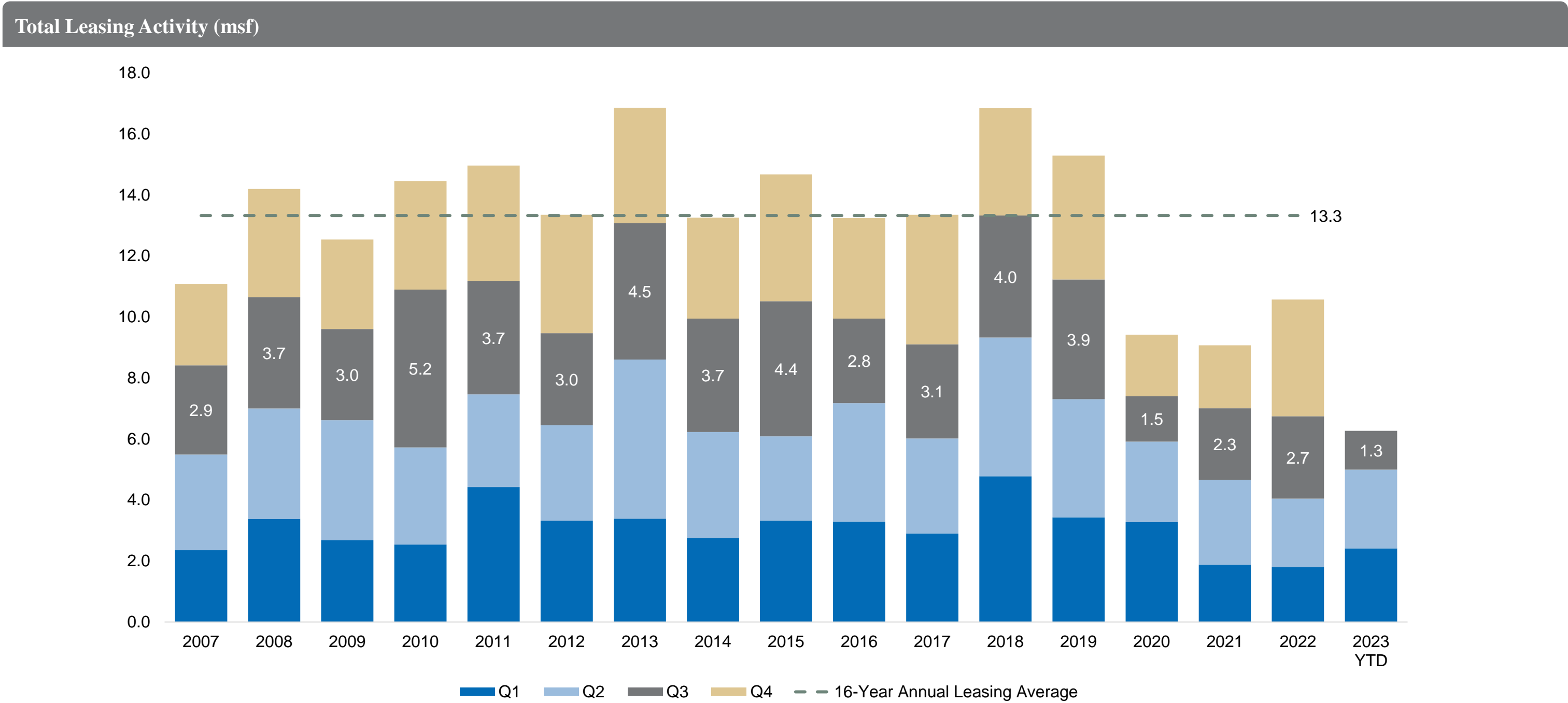
Historical Construction Deliveries, Net Absorption, and Vacancy



\*2023 data through 3Q23  
Source: Newmark Research

# Leasing Activity Down From 2022, Still Driven by Renewals

A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. Year-to-date, 2023's leasing volume is slightly lower than transaction activity over the last three years.



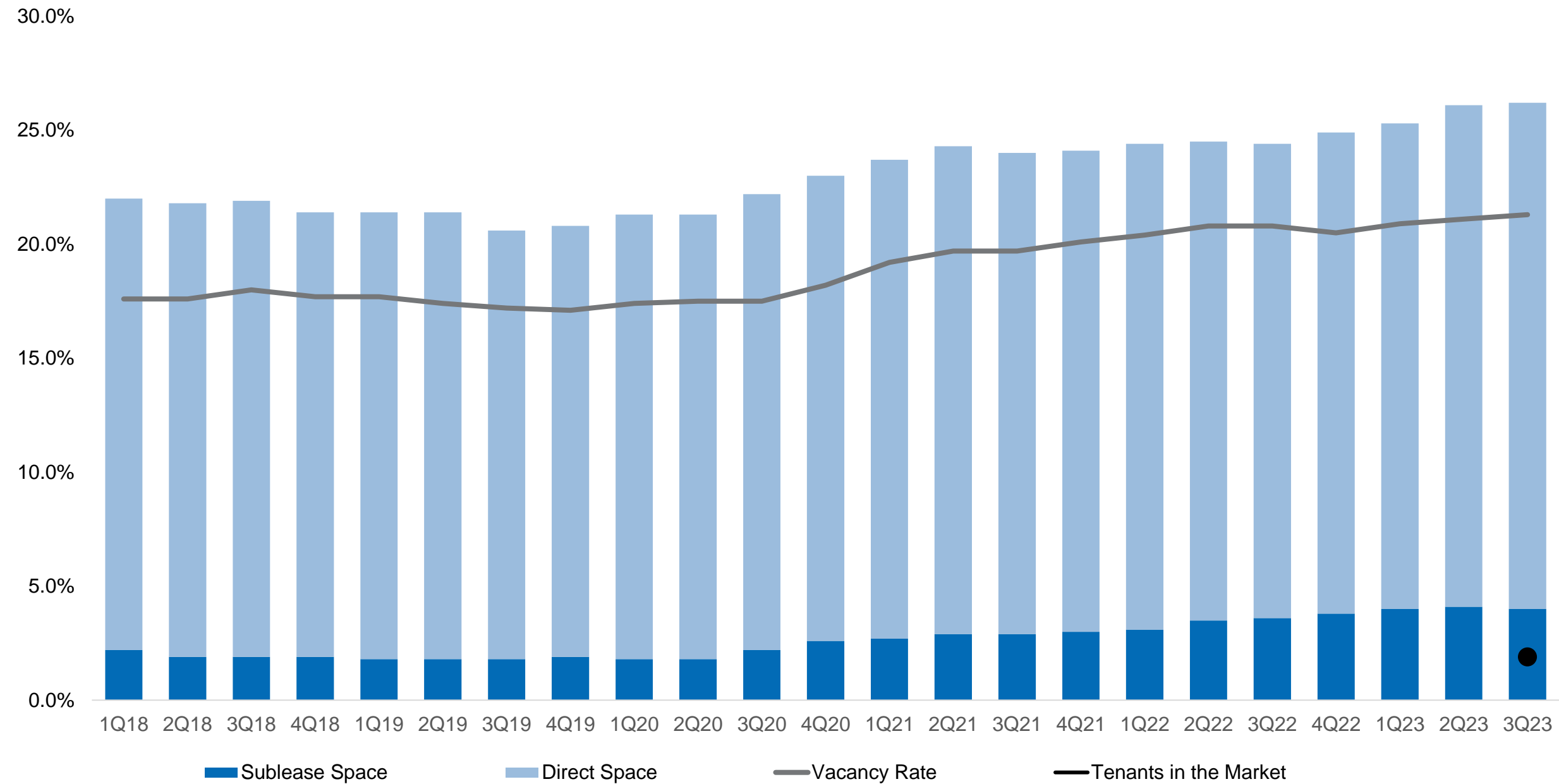
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Drops

Total availability continues to increase quarter-over-quarter, but this quarter it is direct space driving new available supply. Northern Virginia saw sublease space begin to escalate in 2020 and early 2021. In the first half of this year, even more sublease listings hit the market. However, this quarter, sublease availability declined 10 basis points due to some of the 2020-2021 sublease listings rolling over to direct listings, as well as some net positive sublease absorption.

Available Space and Tenant Demand as Percent of Overall Market

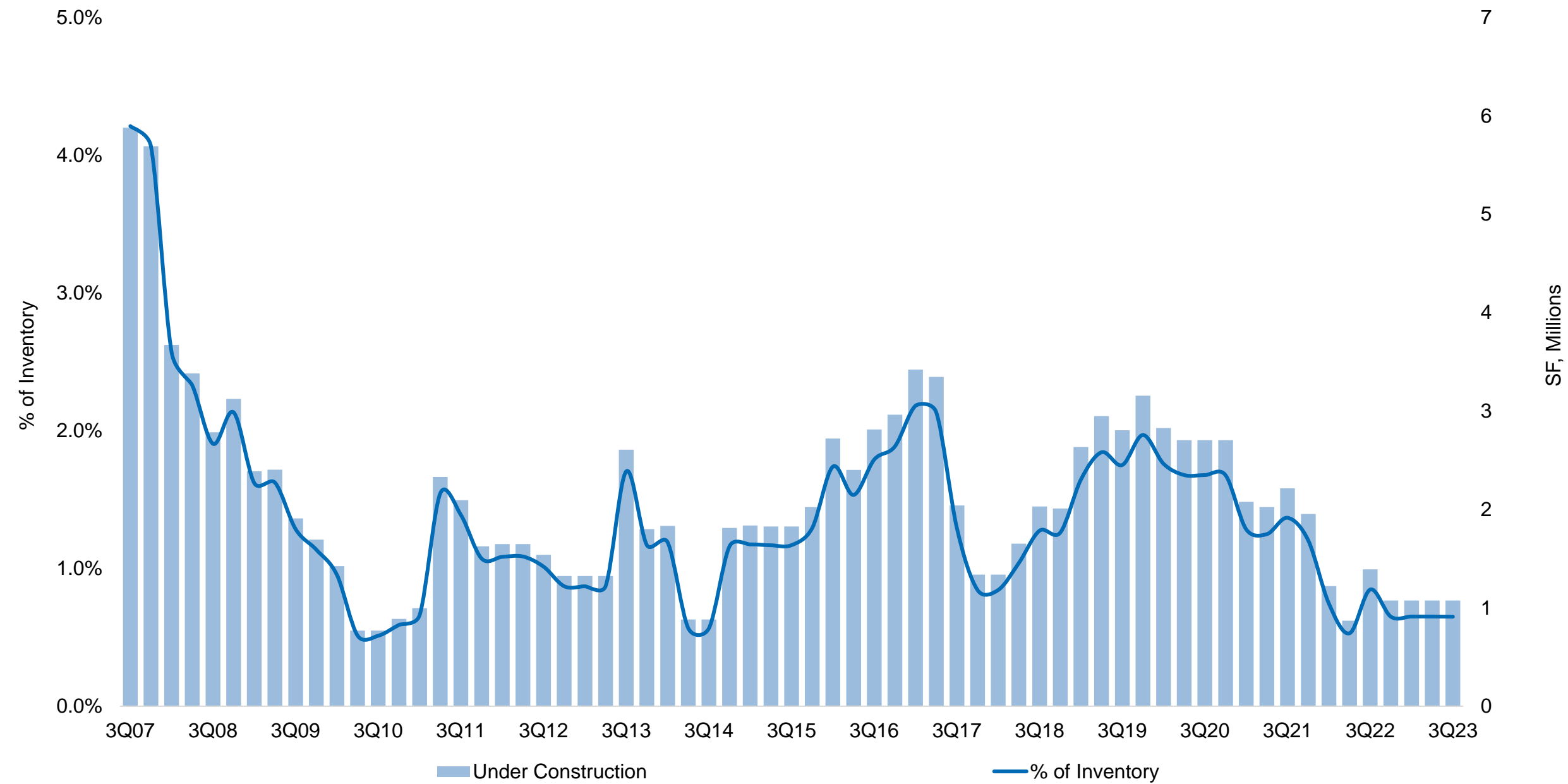


Source: Newmark Research

# Construction Activity Remains Slow

As of the third quarter of 2023, the market has five properties totaling 1.1 million square feet under construction. Fuse at Mason Square is under construction in the Virginia Square submarket and will bring 310,000 square feet to the market upon delivery. There are three properties under construction in the Reston submarket. 1800 Reston Row Plaza will bring 276,000 square feet upon delivery, 1880 Reston Row Plaza will bring 223,000 square feet upon delivery, and 12050 Inspiration Street will bring 75,000 square feet upon delivery. Lastly, 3901 N Fairfax Drive will bring 191,000 square feet to the Ballston submarket upon delivery. There were no ground-breakings or deliveries during the quarter.

Office Under Construction and % of Inventory



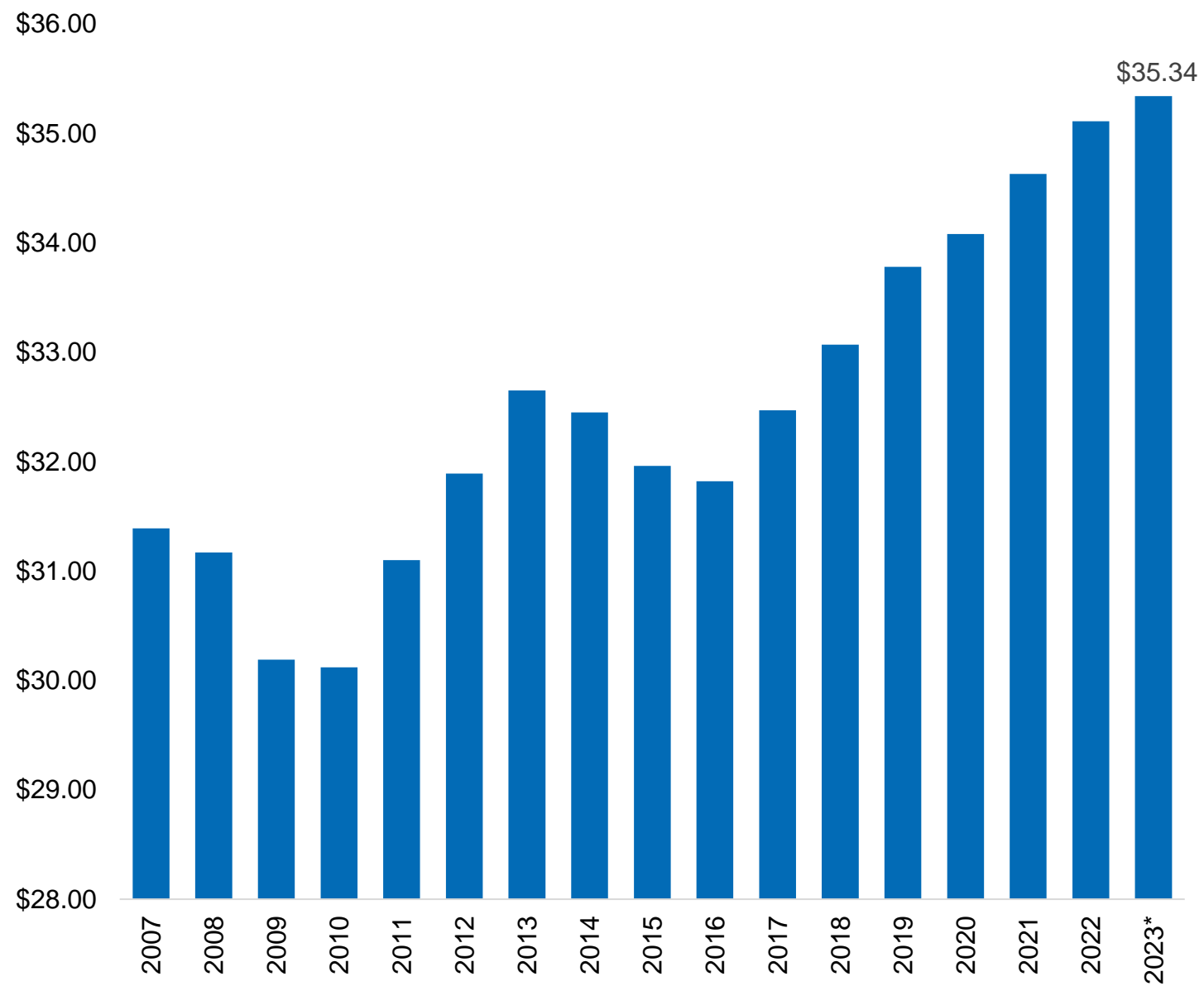
Source: Newmark Research, CoStar



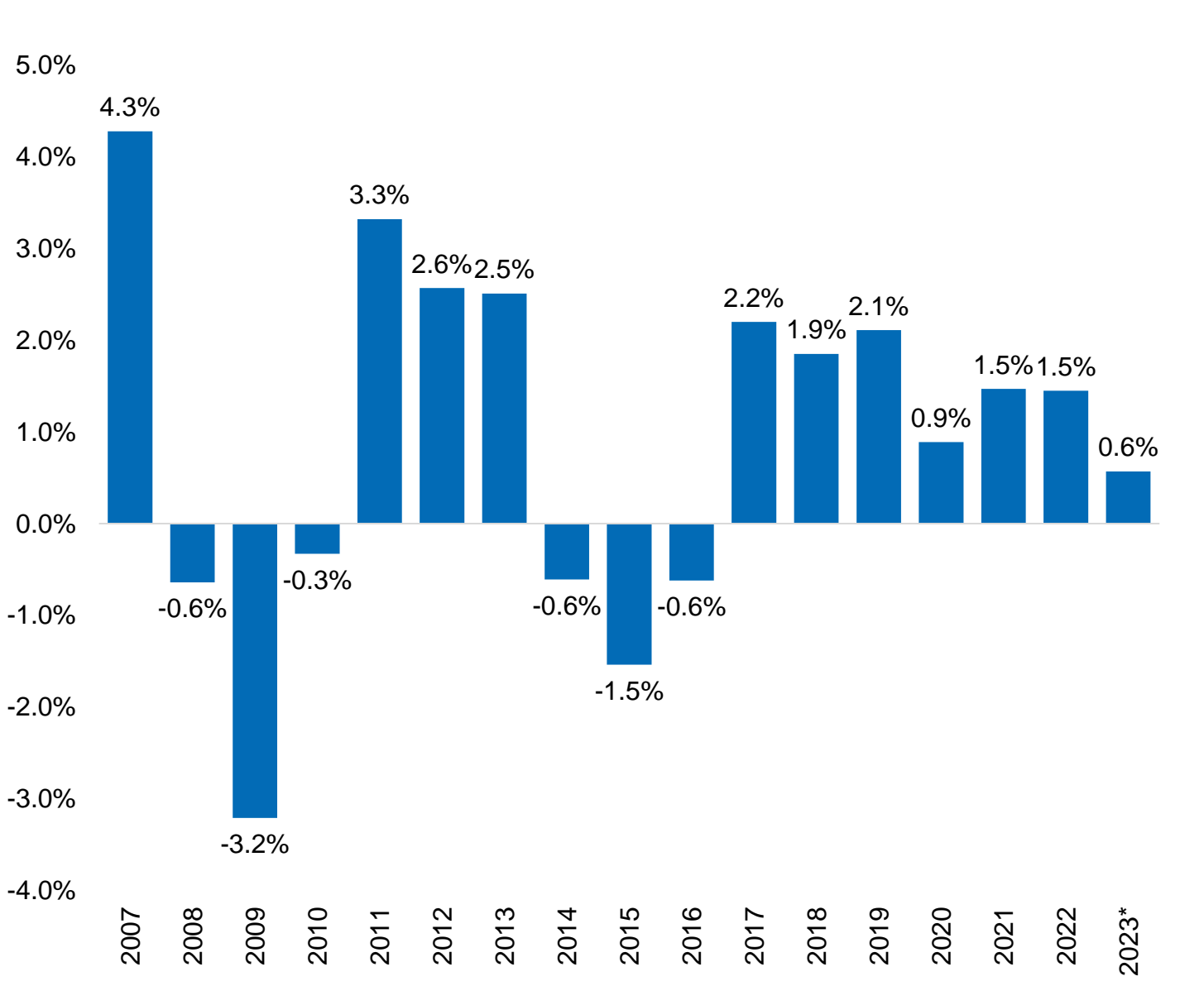
# Rental Rates Still Increasing YOY, but Q3 Marks Beginning of QOQ Declines

Although rents have increased 0.6% since the end of 2022, rents decreased quarter-over-quarter. Rents ended Q3 2023 at \$35.34 per square foot, a decrease of 0.4% quarter-over-quarter.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

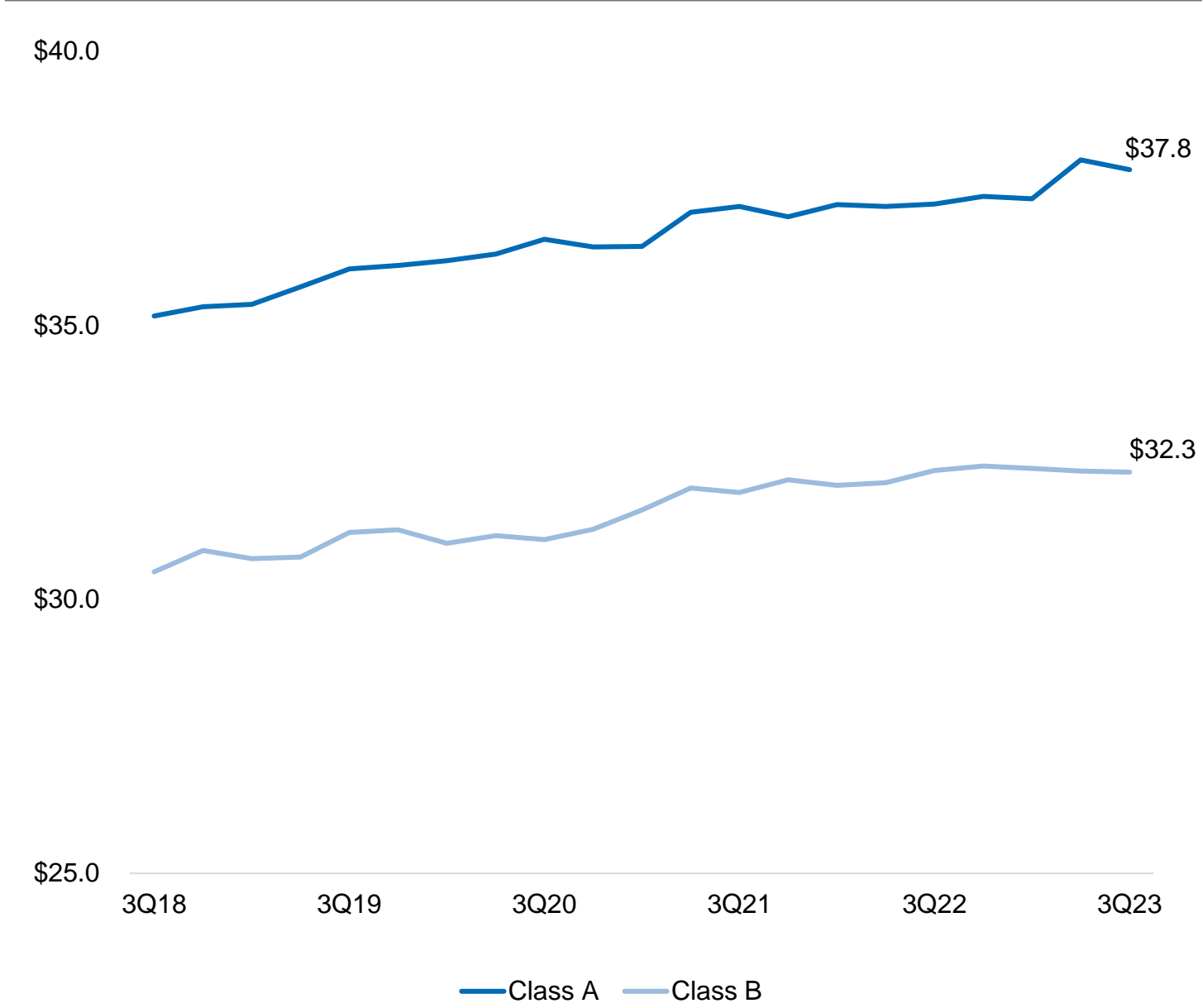


\*2023 data as of 3Q23  
Source: Newmark Research, CoStar

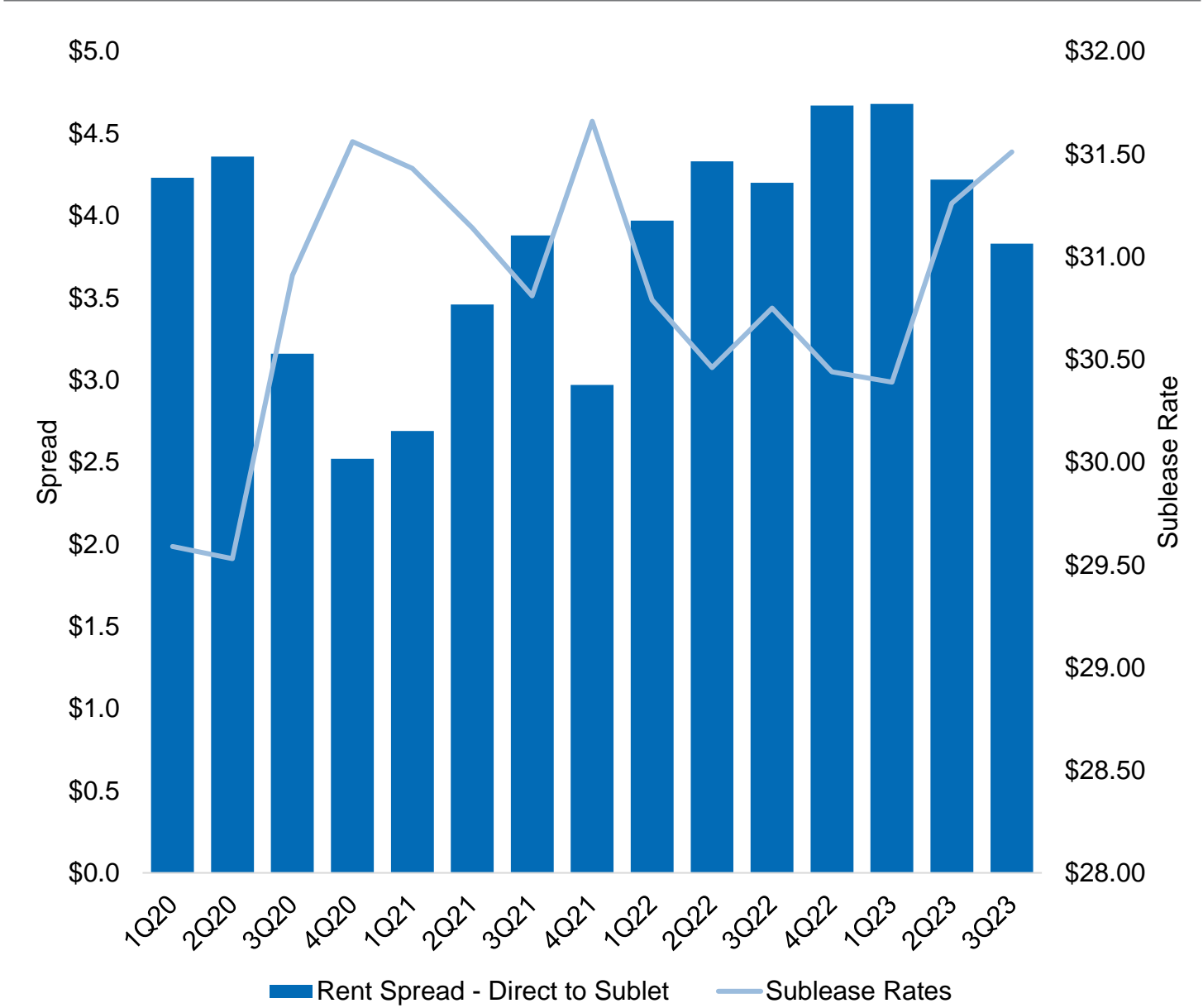
# Class A Rents Continue to Outperform Older Vintage Office Rates

While Class B rents have flattened over the past year, Class A rents have seen positive movement, increasing 1.7% year-over-year. This is indicative of the bifurcation of office user demand. Trophy is outperforming all Classes, while Class B and Class C rates will continue to drop as user demand also drops.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



# Leasing Activity is Dominated by New Leases

Despite the market’s negative absorption in Q3 2023, leasing activity continues, albeit at a slower pace. Several significant new leases were executed, signaling that tenants continue to remain confident in making long-term real estate decisions, while also weighing future needs and hybrid work models

Notable 3Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
The United States (Government)	15010 Conference Center Drive	Rt. 28 South	Direct Lease	174,913
CRC Advisors	950 N Glebe Road	Ballston	Direct Lease	38,749
IntraFi Network LLC	1300 17th Street N	Rosslyn	Direct Lease	38,311
Pulte Mortgage	9302 Lee Highway	Vienna	Renewal	36,951
Air & Space Forces Association	1201 S Joyce Street	Pentagon City	Direct Lease	31,909

Source: Newmark Research

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