

# Northern Virginia office market report

Q3 2023

AVISON  
YOUNG



# Northern Virginia Office Market Trends

60.05%

## Class B Share of Total Vacancy

As newer developments deliver to the Northern Virginia office market, Class B buildings have seen a decline in space leased. Even as Class B's share of the office market is dwindling, its share in the total vacancy of the market continues to rise as a result of tenant rightsizing and continued flight to quality.

8.18%

## Percentage of Leases Signed by Tech Companies

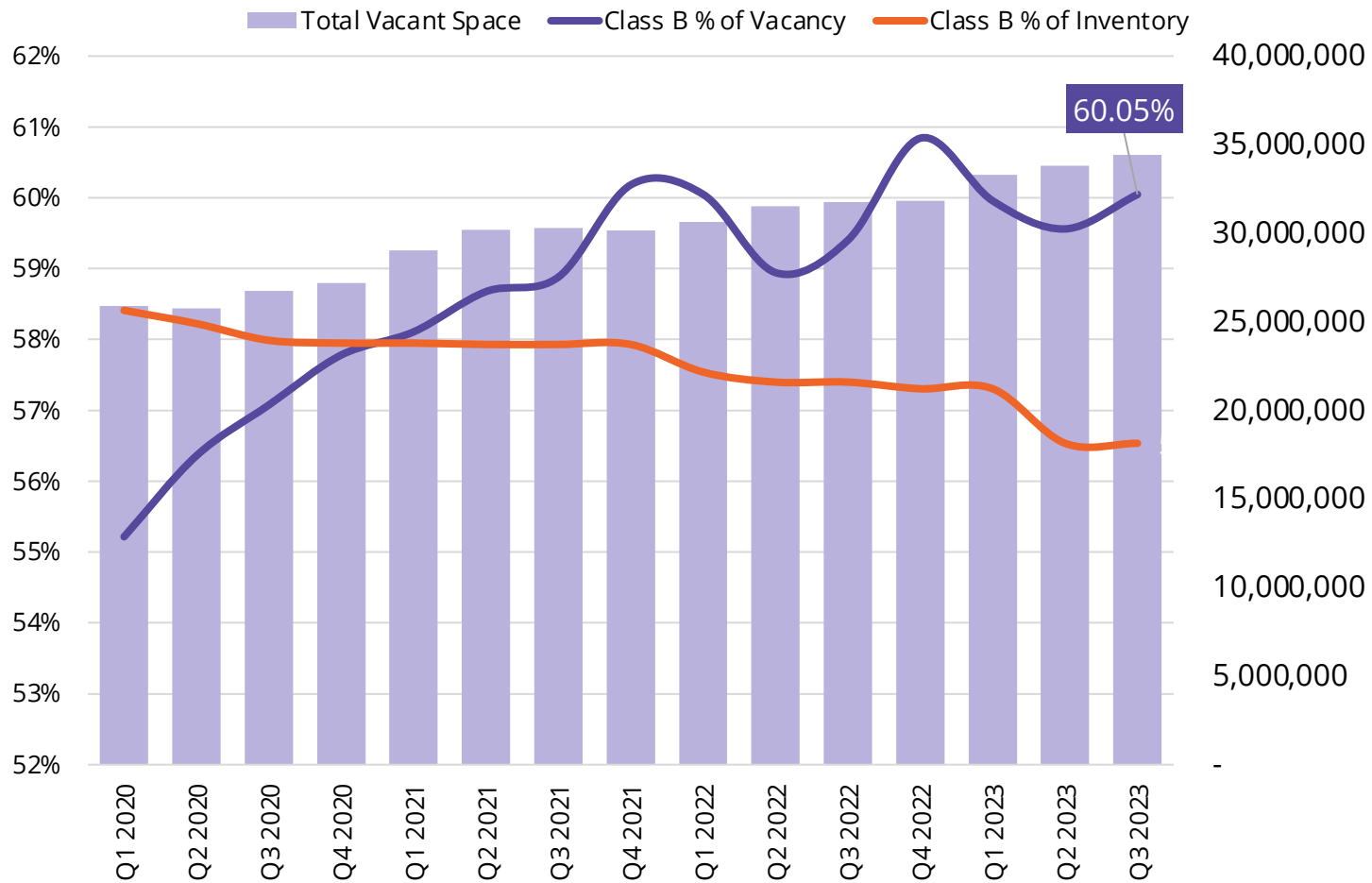
Tech companies have been large drivers of the Northern Virginia office market for some time, but with tech companies largely adopting hybrid or remote working models, the share of total leasing attributable to tech in Q3 was the lowest it has been since before 2019.

\$922mm

## Year-to-Date Investment Sales

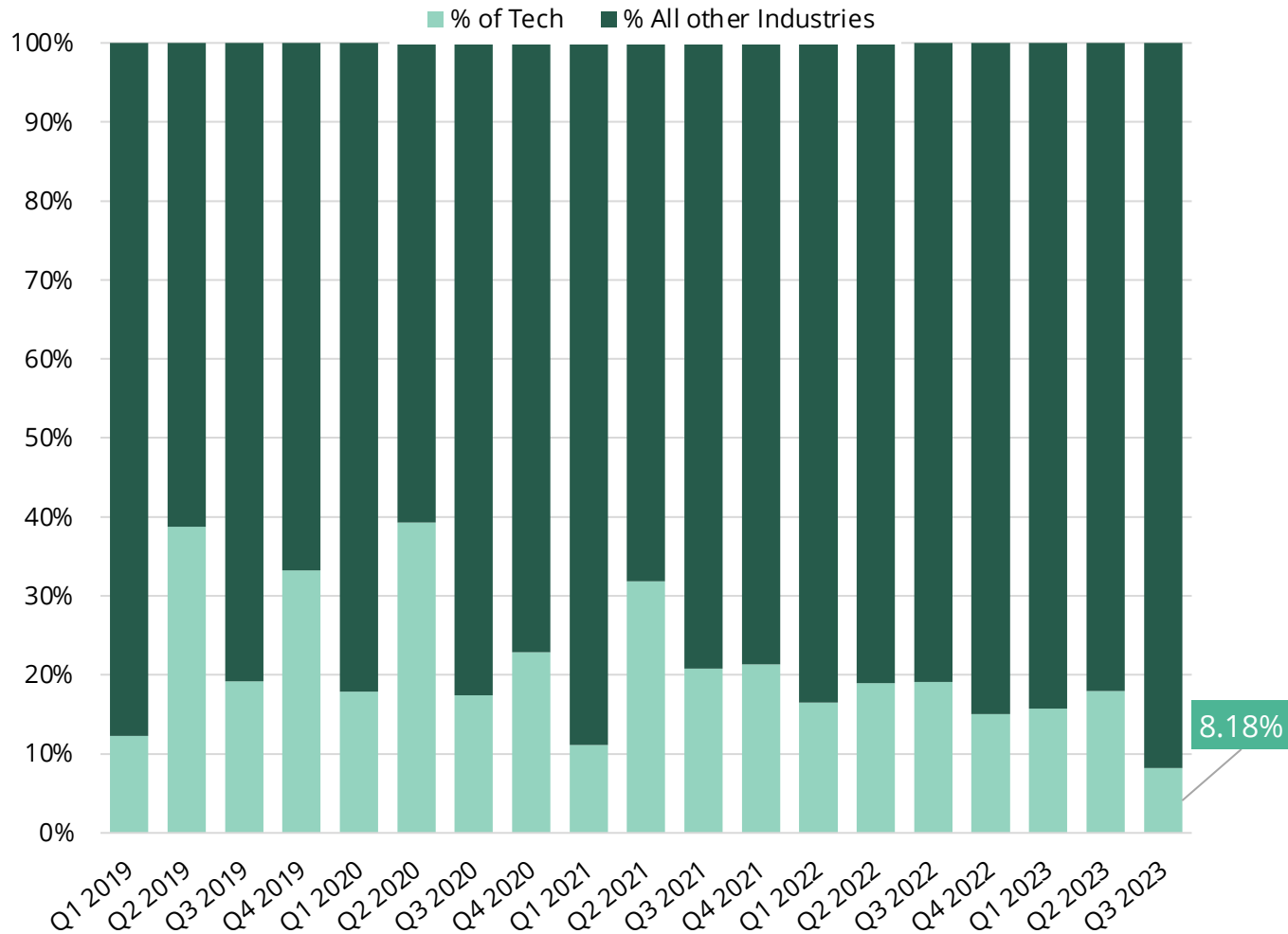
Investment sales in the Northern Virginia office market has seen better days. In the past 15 years, only 2013 saw lower Investment sales volume at the end of Q3. Factors that could be attributed to this decrease are the Federal Treasury rate increases, rises in construction costs, among others.

# With Tenants Absentee, Vacancy Rises in Class B



As the market sees an increase of Trophy and Class A buildings hitting the market, more tenants are leaving Class B spaces.

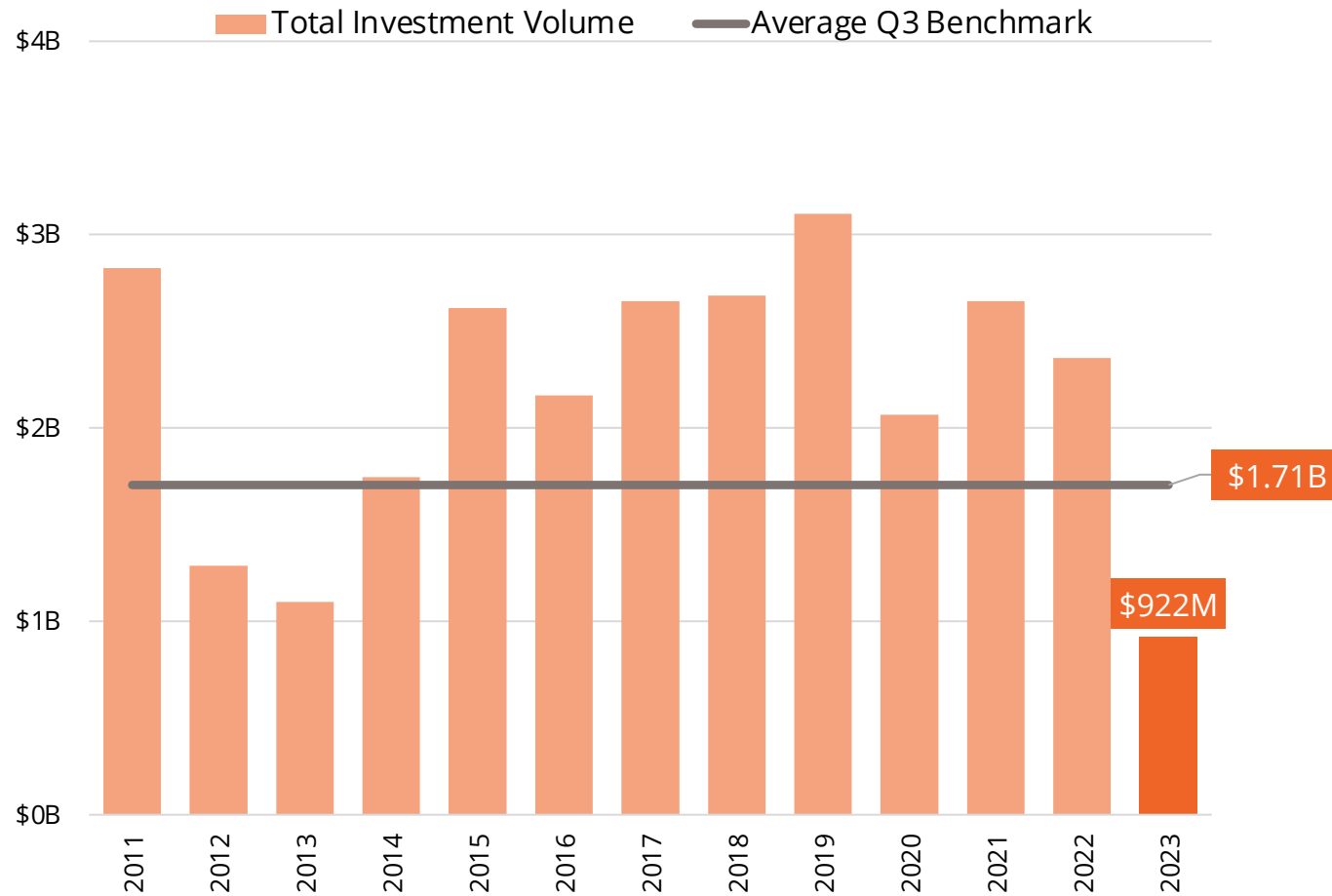
# Leasing Velocity Decreases in Tech Sector



An increase in remote job postings for Tech roles indicates that companies are reevaluating their need for physical office space.



# A Down Year in Investment Sales



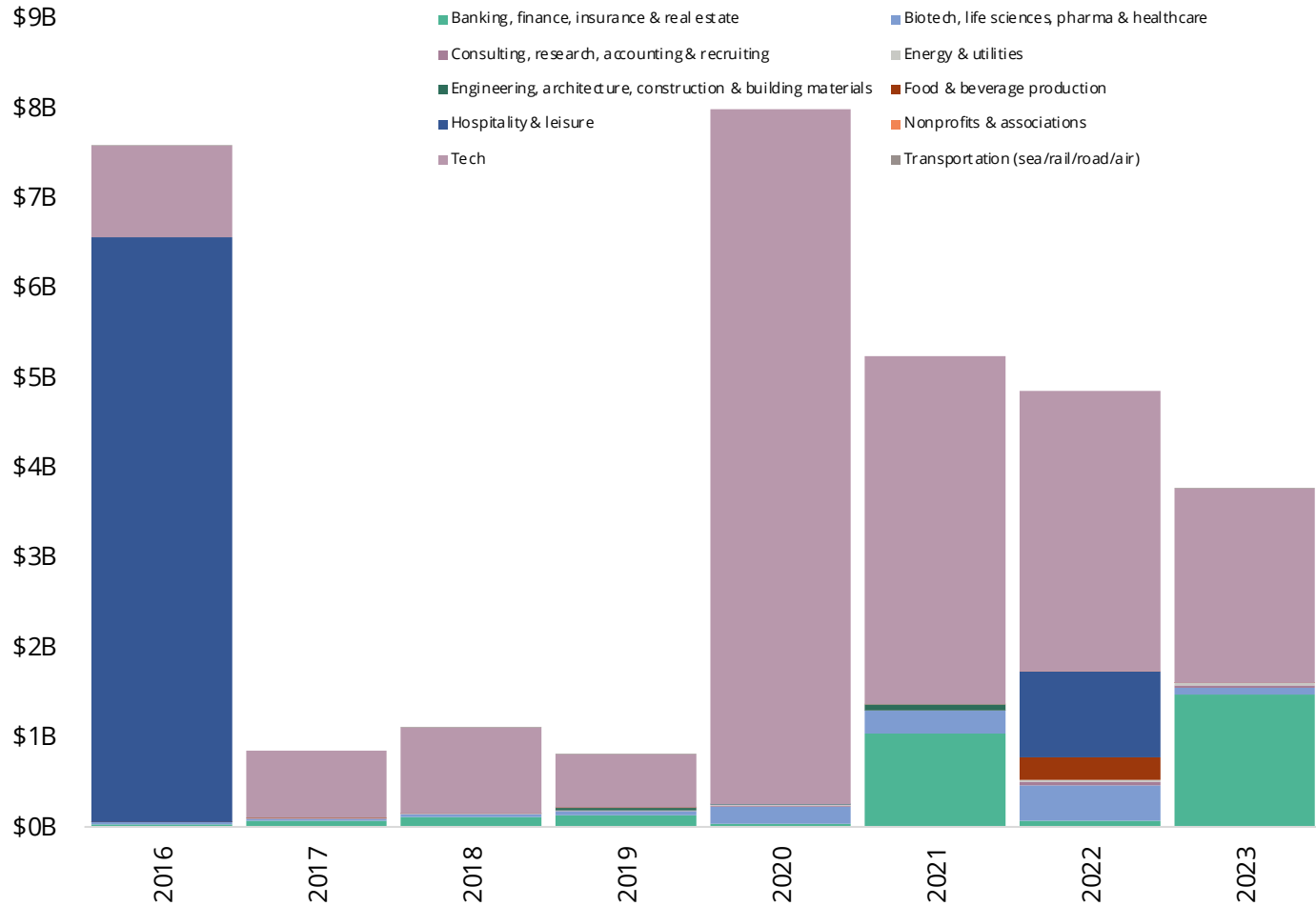
**2023 is on pace to be one of the lowest years for investment sales. Delinquent loans, sequestration, among others are factors in a hectic investment sales market.**

# Occupier trends

Let's examine more prevailing office trends.



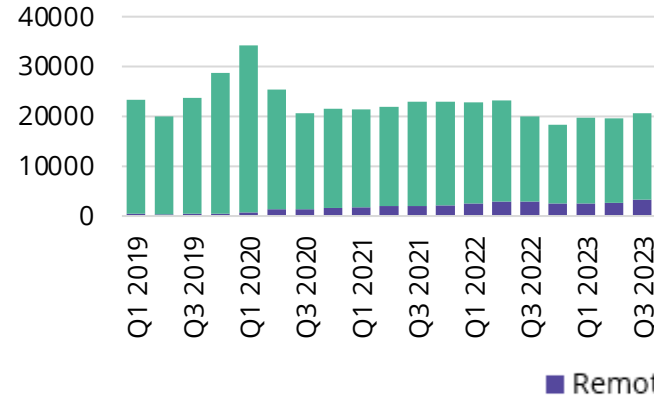
# Venture Capital by Industry



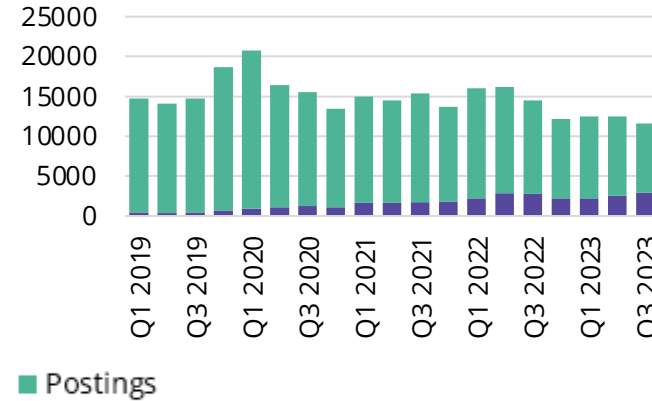
After an explosive 2021, rising interest rates have resulted in compressed venture capital funding in 2023.

# Jobs Postings Across Major Industries

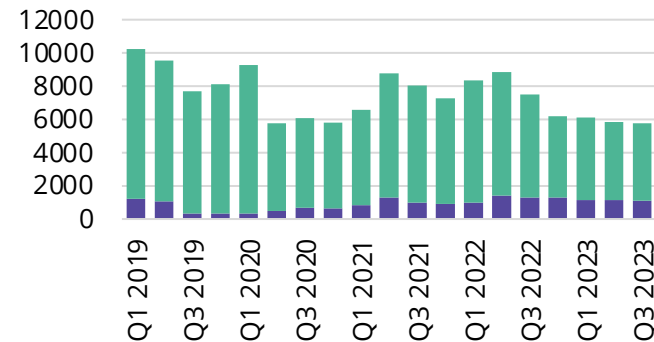
## Consulting, Research, Accounting, and Recruiting



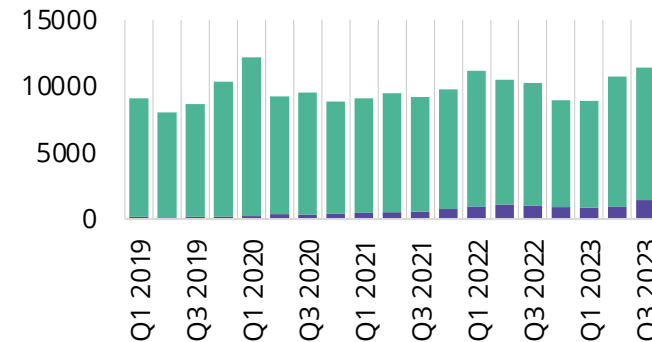
## Technology



## Banking, Finance, Insurance, and Real Estate



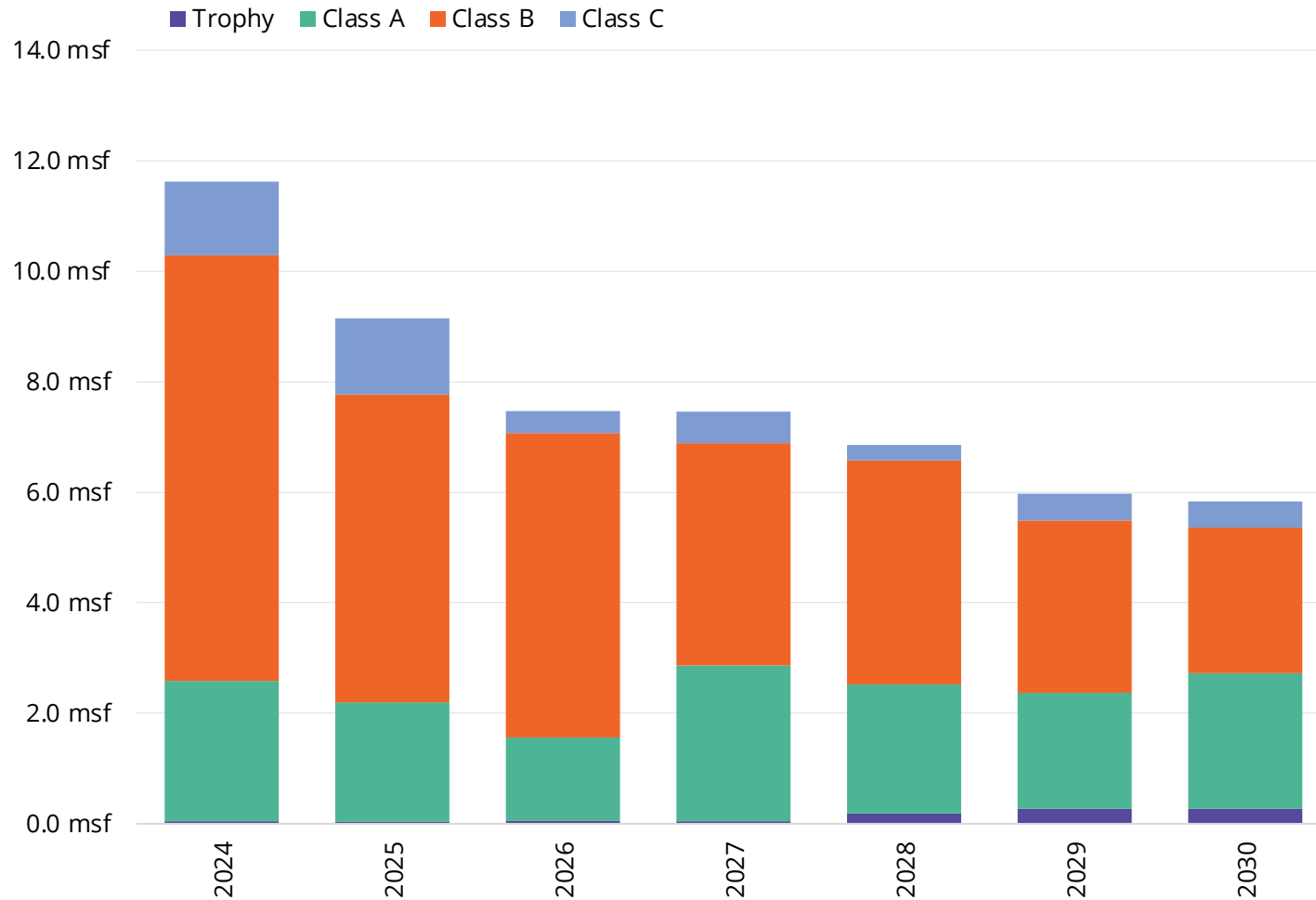
## Engineering, Architecture, and Construction



Remote work has fundamentally changed the way we perceive value within the office market. This has made it harder to value office buildings.

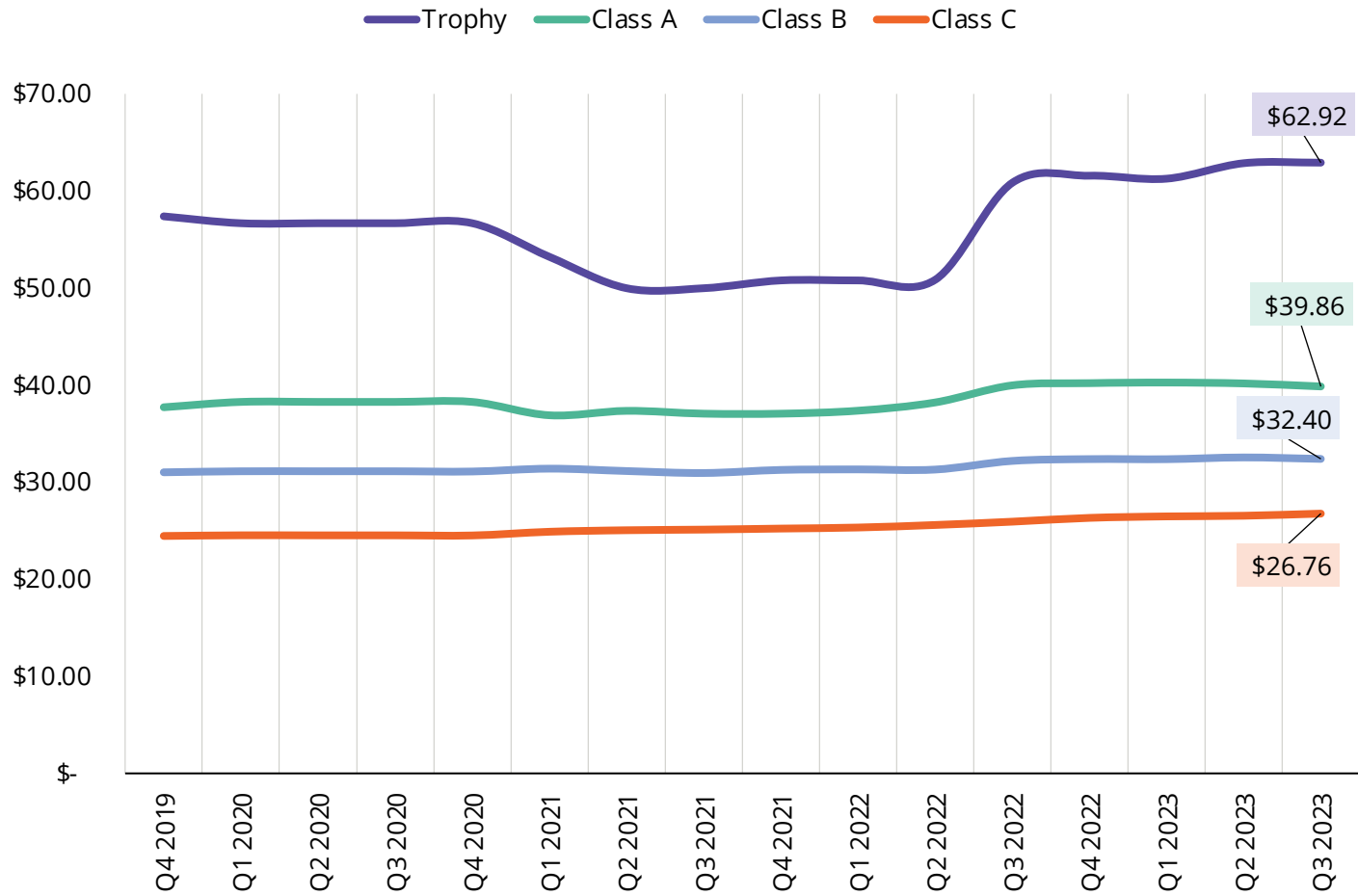


# Yearly Lease Expirations by Property Class



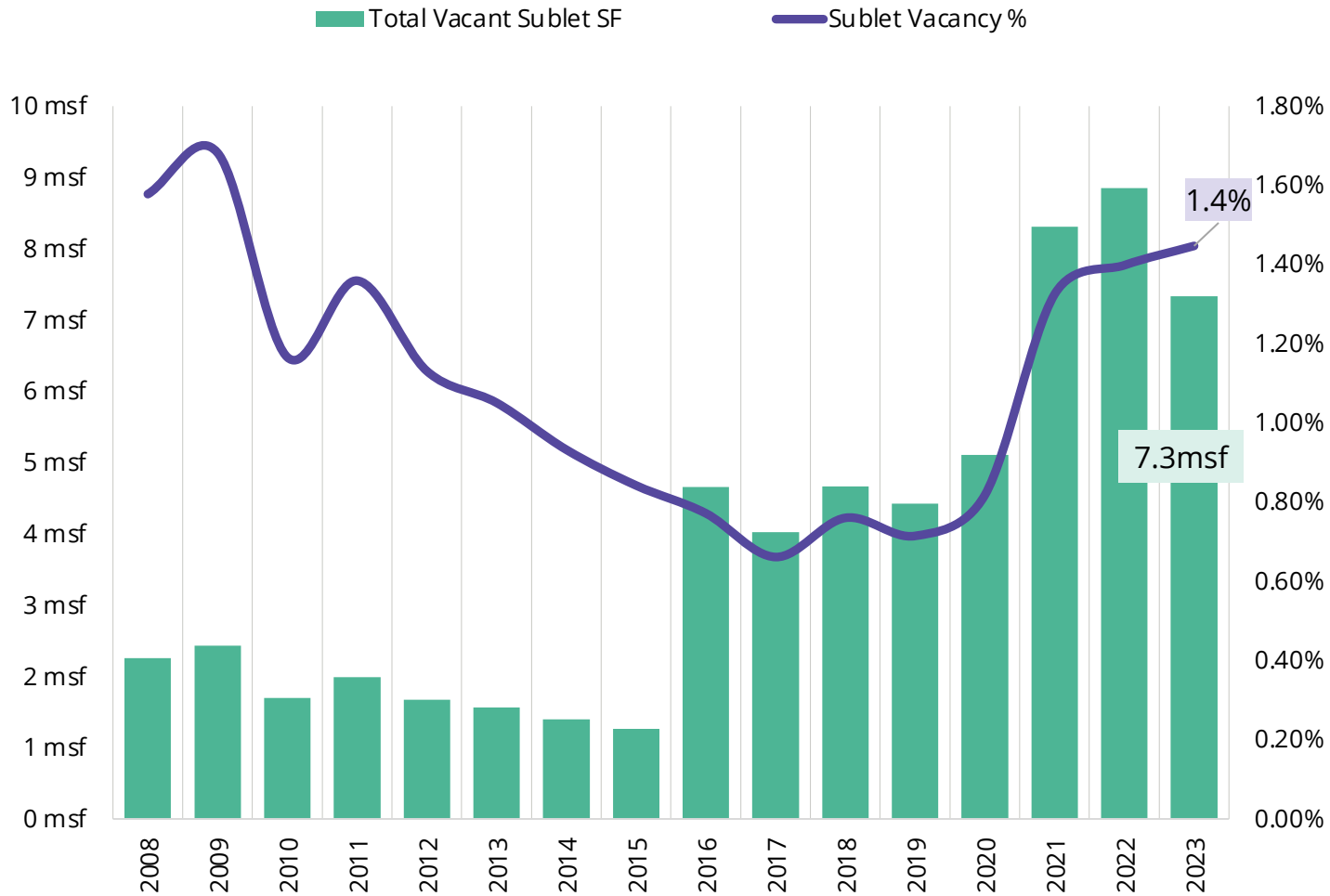
**Northern Virginia has at least 5 msf of expiring leases every year from 2024-2029, most of which is in Class B buildings.**

# Asking Rents FS by Property Class



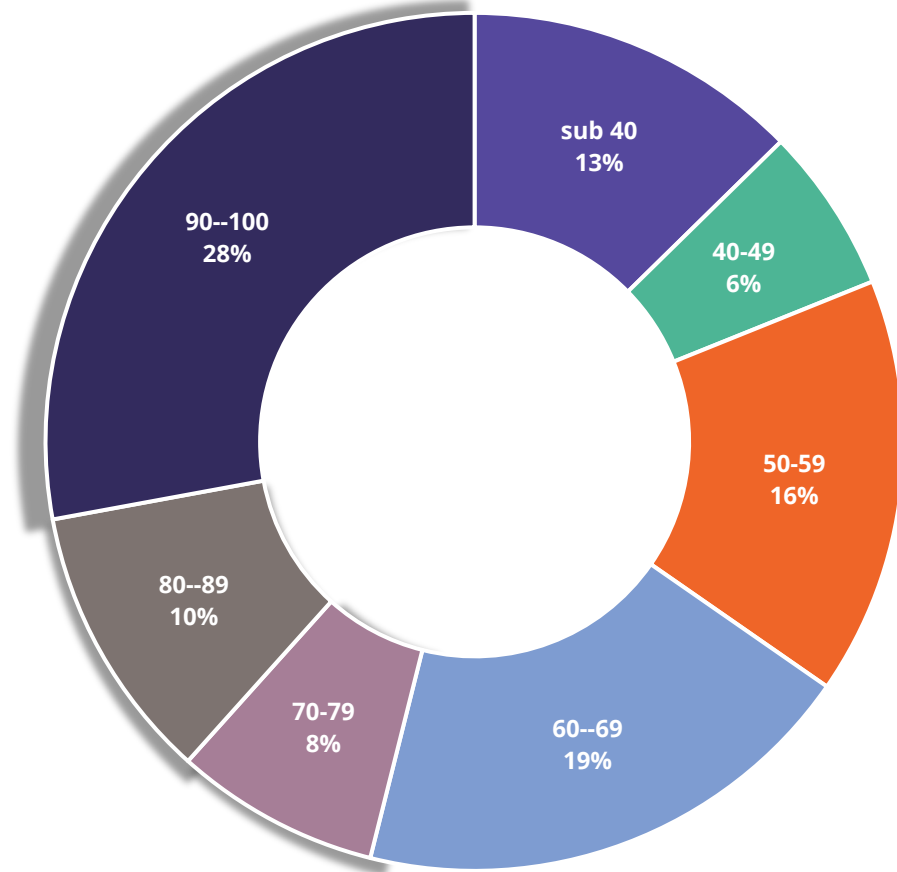
After a period of growth for Trophy rents, rental rates across the board have stagnated for the past four quarters.

# Sublease Space



**With rising inflation and less people in the office, tenants have placed portions of their space onto the sublease market. These sublease offerings come at generally lower price points and have become favorable for tenants seeking flexibility and quick timing.**

# Flight to Quality (2021-2023 YTD)



■ sub 40 ■ 40-49 ■ 50-59 ■ 60-69 ■ 70-79 ■ 80-89 ■ 90-100

Since 2021, the Northern Virginia office market has been improving in terms of the quality of their buildings. To further analyze these trends, Avison Young has developed a proprietary scoring model, that assigns buildings a score based on –

- Rent
- Year Built
- Presence of a Conference Center
- Presence of a Tenant Lounge
- Presence of a Roof Terrace
- Presence of a Private Terrace

Based on the scoring output of the model, the top three scoring tranches of the market is responsible for roughly 50% of leasing since 2021. This includes all transaction types (ie New leases and renewals).

Note, the scoring outputs are uniformly distributed i.e. if there are 10 properties, one is going to be 100%, one is 90%, one is 80%, etc.



# Office Development Pipeline

**8 properties**

proposed, under construction

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**2.01 msf**

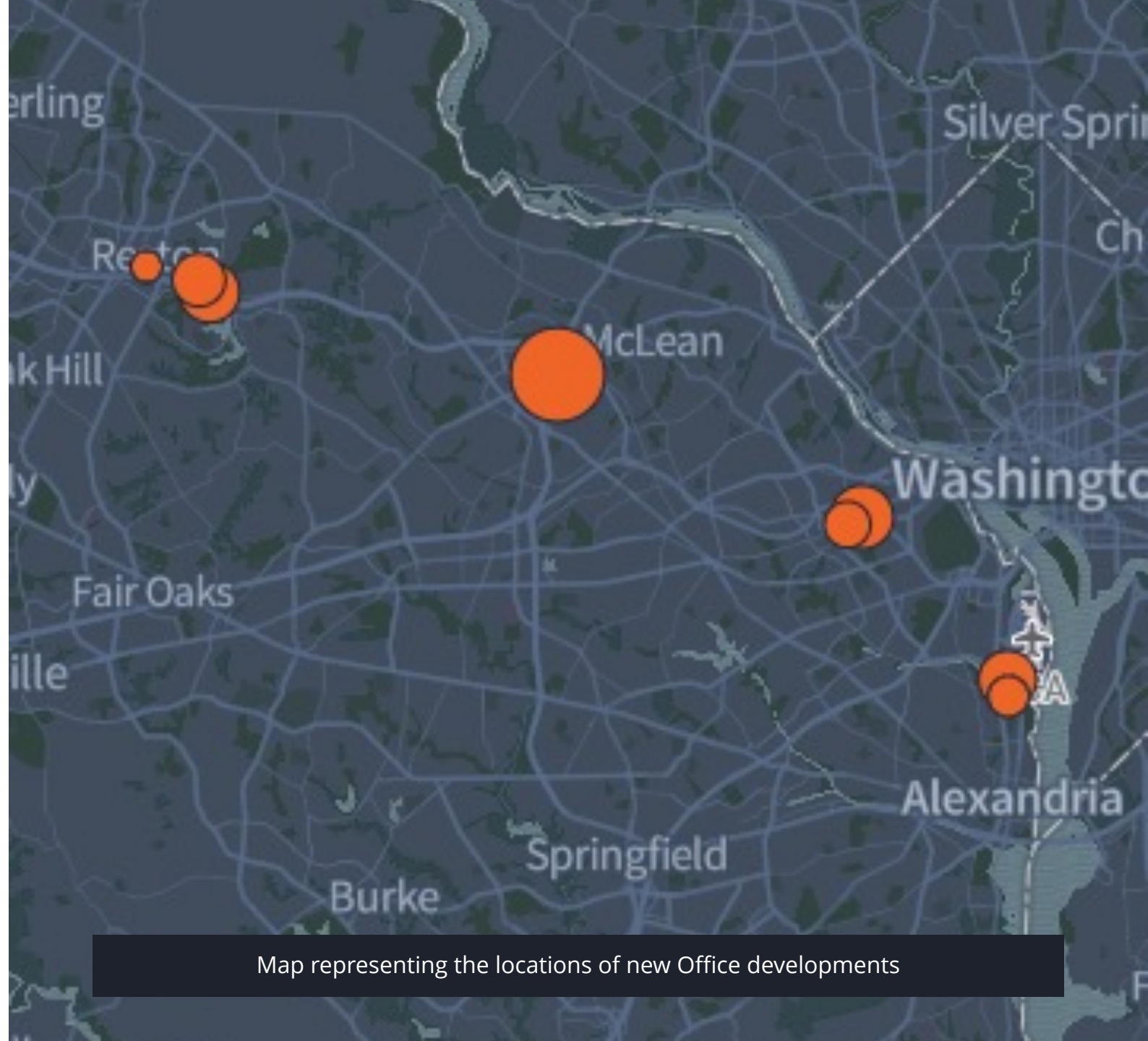
proposed, under construction

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**1.4%**

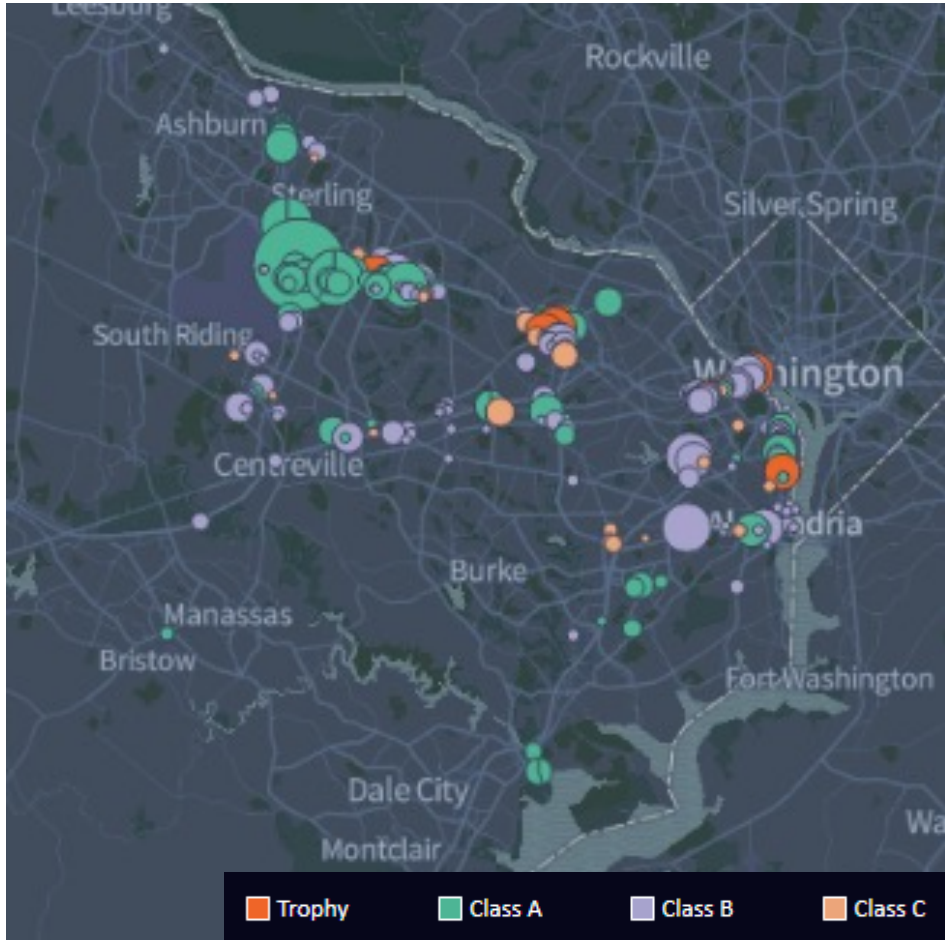
share of office inventory

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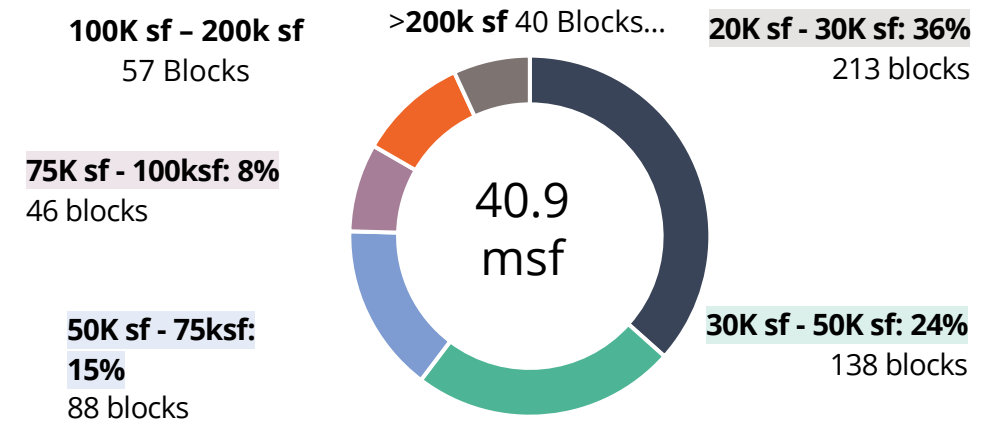


Map representing the locations of new Office developments

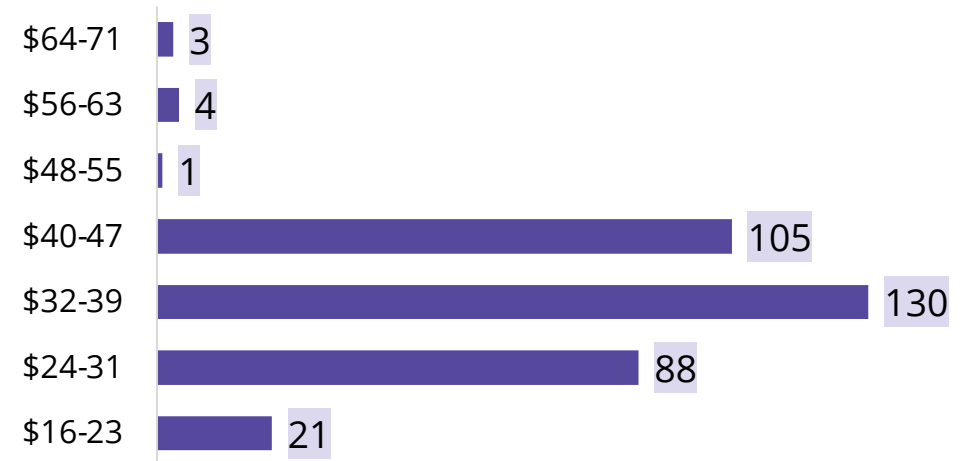
# Office Large-Block Availabilities



## Large-block space size ranges



## Large blocks available by asking rent psf



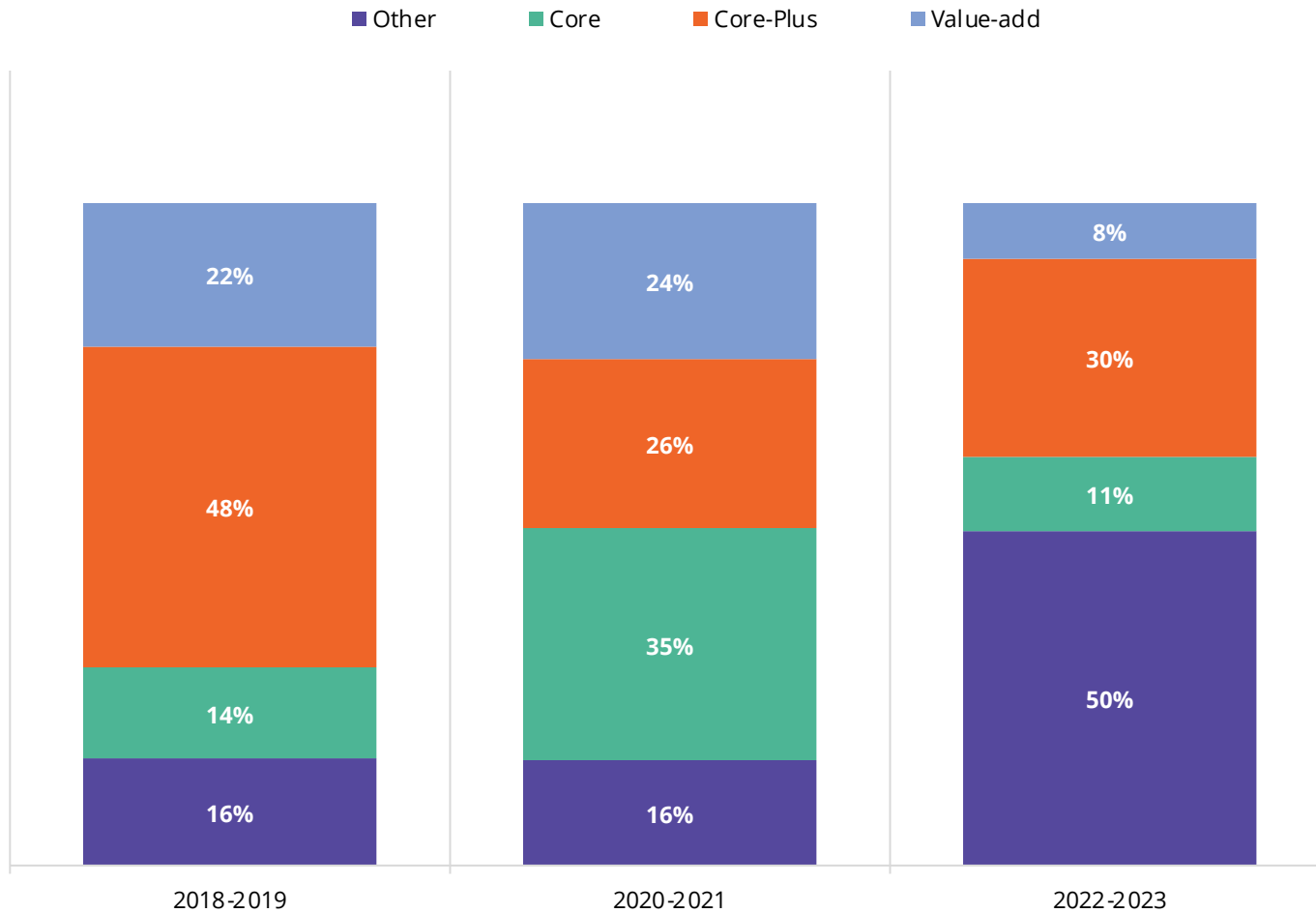


# Capital markets trends

Let's examine more prevailing office trends.



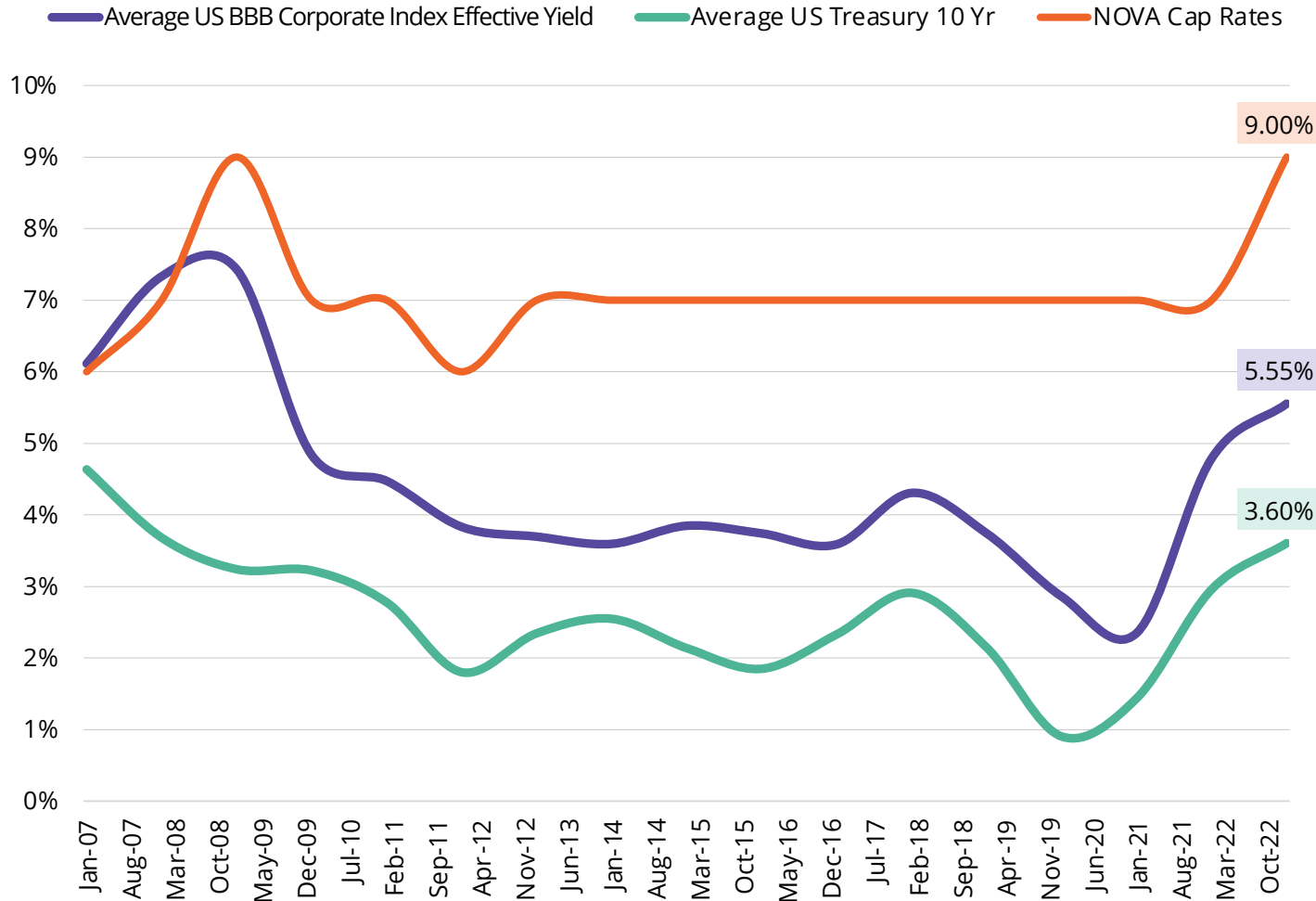
# Office Sales by Asset Profile



**As a result of remote work and rising interest rates, Northern Virginia has seen far fewer core or core plus asset profile sales in recent years.**



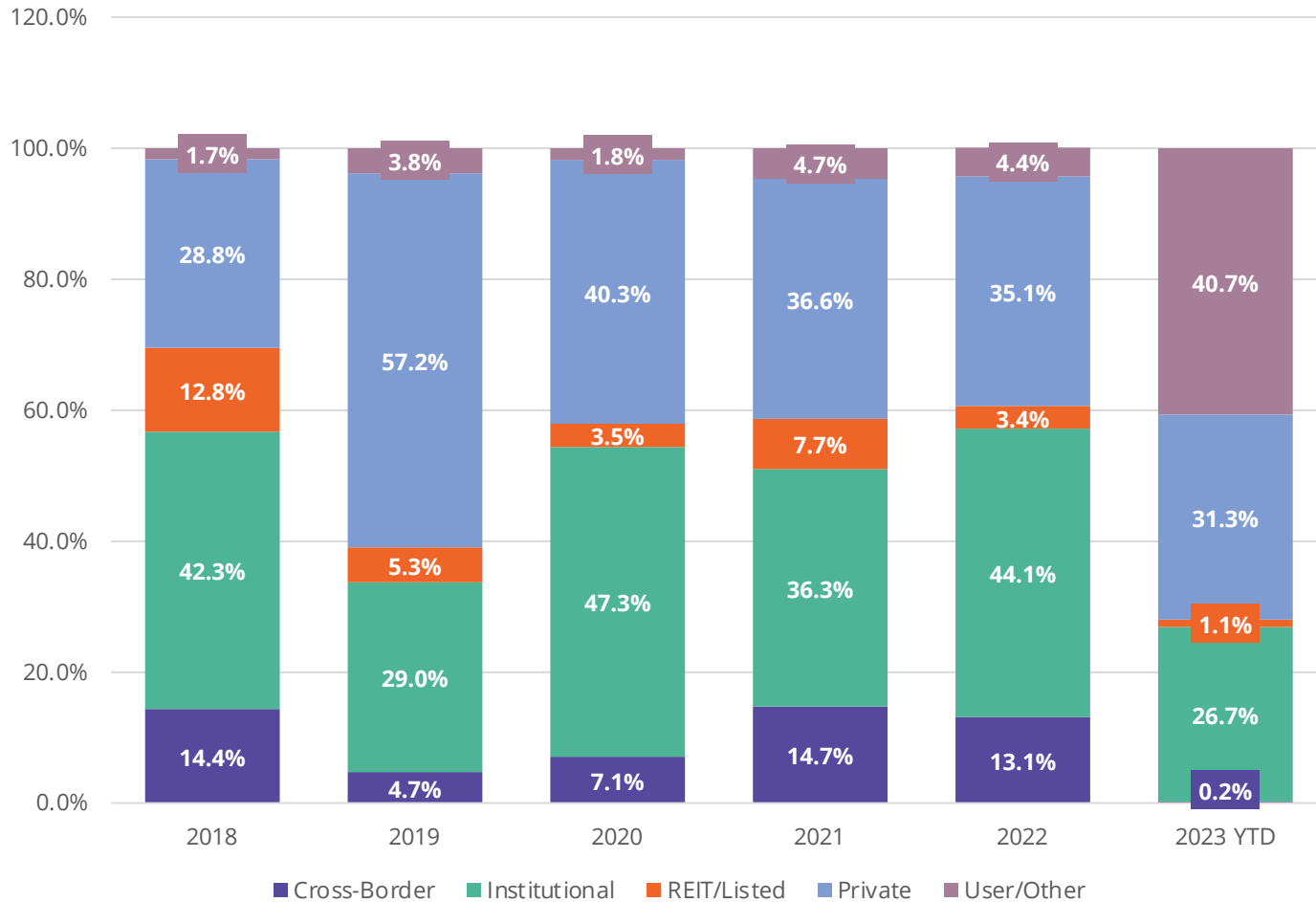
# Office Cap Rates



Cap rates for the Northern Virginia office market have been increasing the past few quarters, mimicking the trends of both the Treasury and the BBB Corporate index.

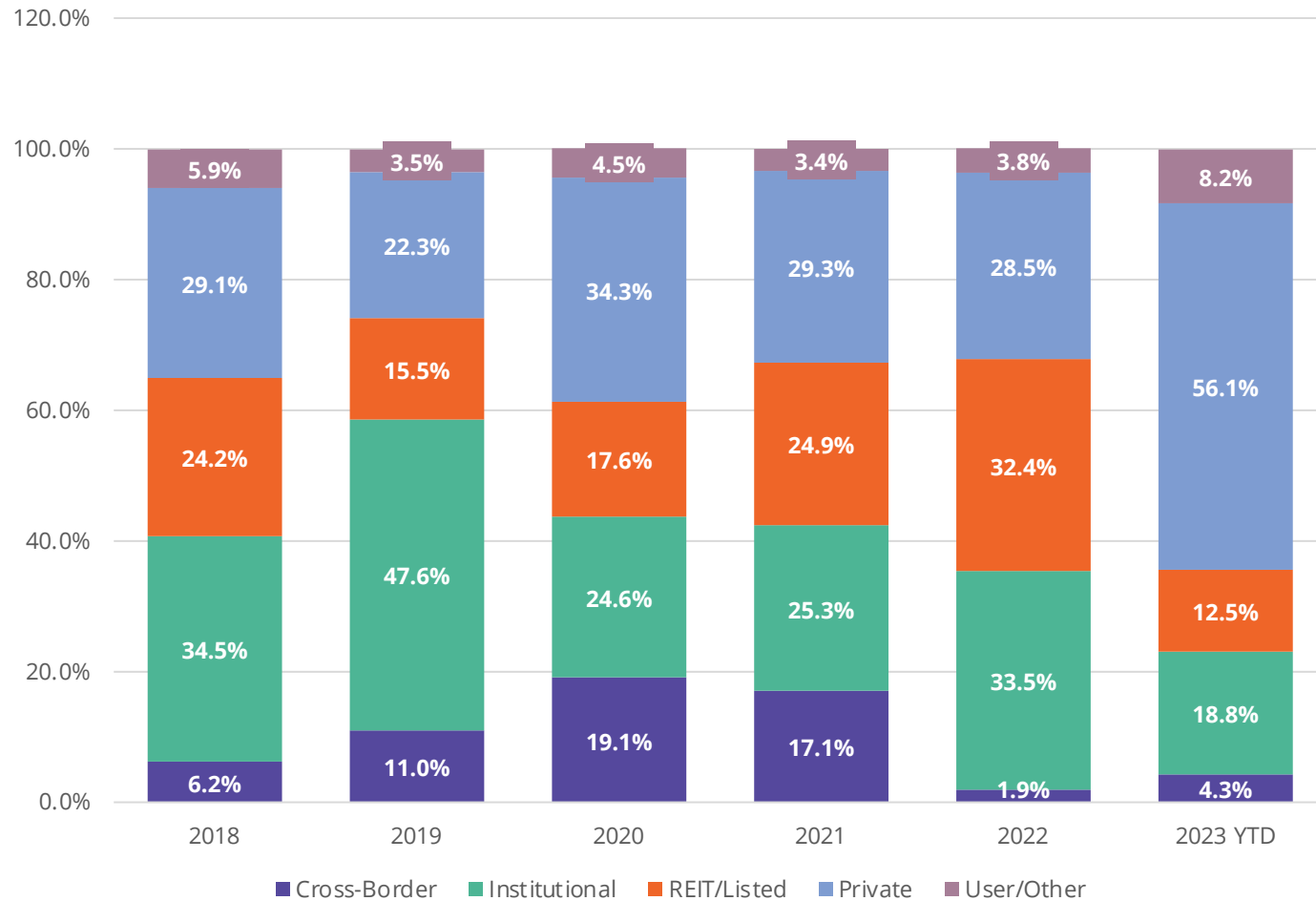
Source: AVANT by Avison Young; U.S. Department of the Treasury; Federal Reserve Bank of St. Louis

# Buyer Profiles



As interest rates rise and institutional capital is generally sidelined, private and user buyers have driven investment activity in Northern Virginia.

# Seller Profiles



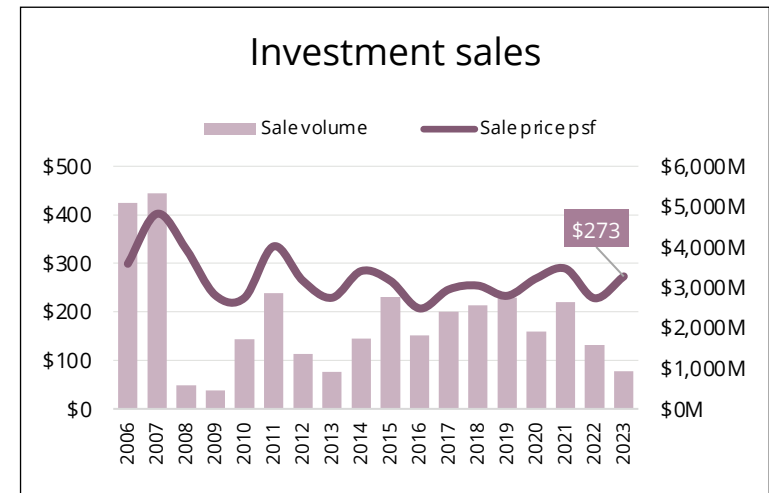
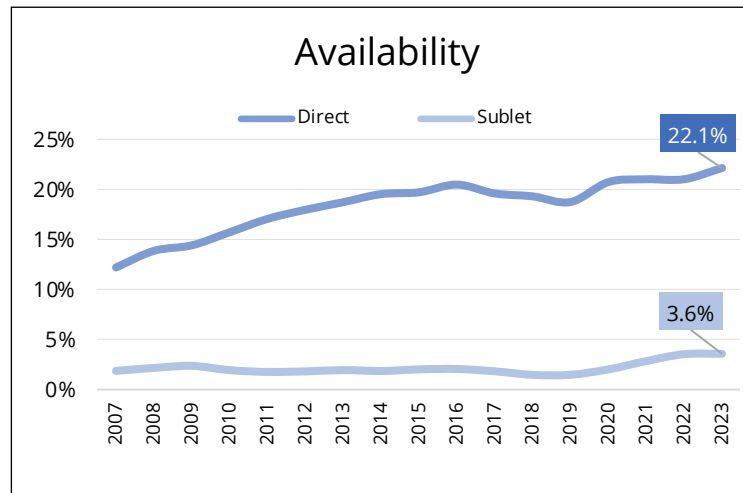
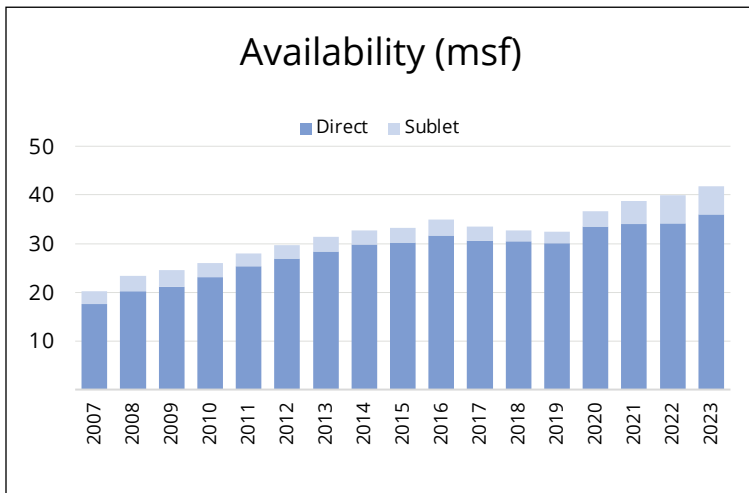
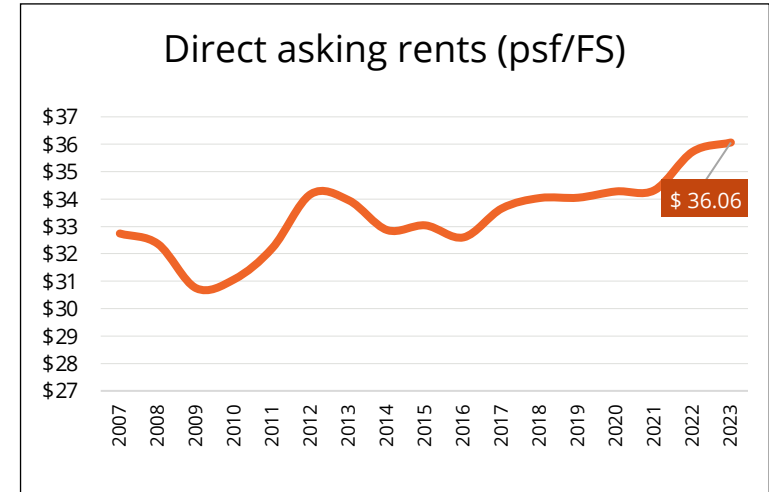
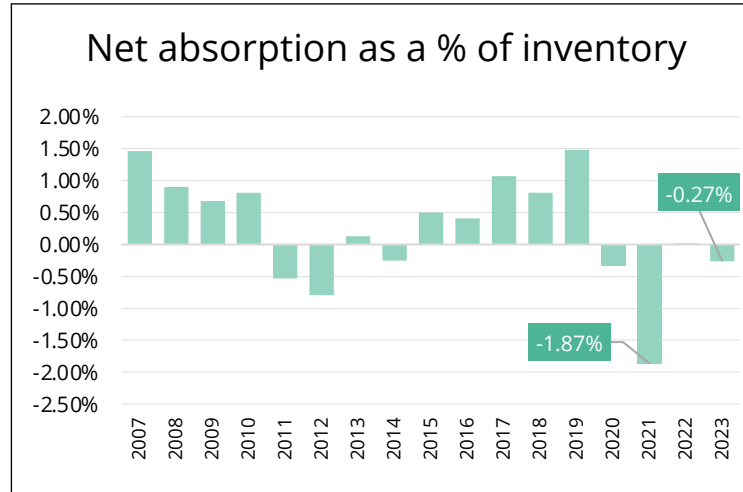
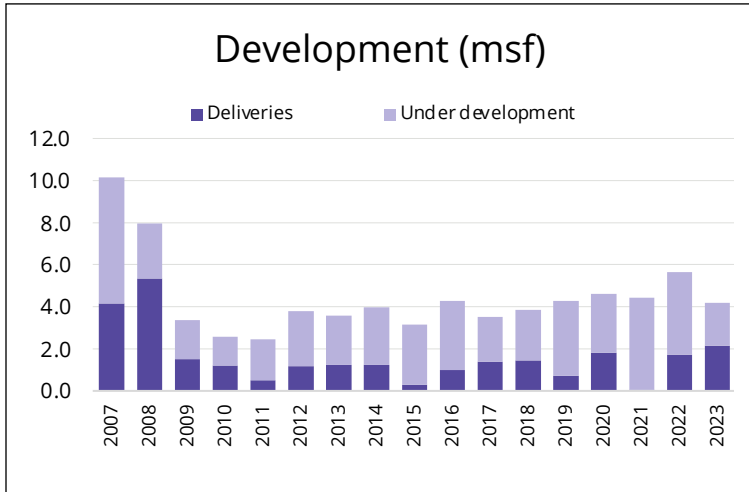
On the contrary, private entities have also driven investment activity on the sell side, driven largely by distress sales.

# Appendix





# Northern Virginia Office Market Indicators



# Northern Virginia Office Market Activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
CRC Advisors	950 N Glebe Rd	Ballston	Aug 2023	38,000	New	Direct
Securiport	1900 Reston Metro Plz	Reston	Aug 2023	25,000	New	Direct
Zachary Piper	1410 Spring Hill Rd	Tysons	Jul 2023	23,000	Renewal	Direct

## Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Melrose Solomon Enterprises	510 King St	Jul 2023	121,031	\$29,500,000	\$244.00	Brookfield Asset Management
Penzance	4601 N Fairfax Dr	Aug 2023	241,571	\$25,000,000	\$103.00	UBS
TF Cornerstone	1881 Campus Commons Dr	Sep 2023	245,755	\$25,100,000	\$102.00	TA Realty

## Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
1800 Reston Row Plz	Reston	Q1 2024	328,380	17.2%	Comstock Holdings
3901 Fairfax Dr	Ballston	Q1 2024	191,000	0%	Skanska
3401 Fairfax Dr	Virginia Square	Q3 2024	360,500	62.8%	Edgemoor Investment Advisors

# Northern Virginia Office Market Stats by Submarket

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2023)	Net absorption sf (YTD)	Direct asking rent FS
Annadale	1,103,722	-	-	14.4%	2.1%	16.5%	4,578	38,479	\$ 23.38
Ballston	7,944,676	-	191,000	22.7%	2.6%	25.3%	54,650	-35,480	\$ 41.71
Carlyle	5,373,983	-	-	14.0%	0.6%	14.6%	-99,291	-83,715	\$ 38.82
Centreville	607,395	-	-	15.9%	3.1%	19.0%	11,040	34,419	\$ 34.85
Clarendon/Courthouse	5,420,093	-	-	21.7%	4.0%	25.7%	-44,592	-14,059	\$ 41.79
Columbia Pike	472,337	-	-	8.5%	0.0%	8.5%	-	12,910	-
Crystal City	10,762,953	-	-	24.6%	2.9%	27.5%	-59,899	-353,565	\$ 38.33
Del Ray	178,301	-	-	0.0%	0.0%	0.0%	-	-	-
Eisenhower Ave Corridor	479,430	-	-	27.3%	5.3%	32.6%	1,206	9,887	\$ 31.68
Fairfax Center	6,426,047	-	-	22.1%	1.5%	23.6%	-49,934	-101,486	\$ 29.02
Fairfax City	2,661,406	-	-	10.7%	0.2%	10.9%	8,708	32,833	\$ 26.00
Falls Church	943,954	-	-	13.3%	0.2%	13.5%	19,447	19,913	\$ 27.02
Haymarket	1,377,067	-	-	8.0%	1.1%	9.1%	31,306	55,292	\$ 24.92
<b>Market total</b>	<b>160,631,791</b>	<b>2,156,964</b>	<b>2,018,263</b>	<b>19.9%</b>	<b>1.5%</b>	<b>21.4%</b>	<b>-615,981</b>	<b>-428,081</b>	<b>\$36.06</b>

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Herndon	11,502,939	-	-	22.4%	1.1%	23.5%	-665	-211,506	\$ 34.06
Huntington	400,409	-	-	43.2%	0.0%	43.2%	-16,153	-30,939	\$ 25.28
I-395 Corridor	4,059,123	56,964	-	33.4%	0.8%	34.2%	-92,422	-110,199	\$ 30.96
Leesburg/West Loudoun	1,190,256	-	-	2.1%	3.1%	5.2%	256	-34,295	\$ 27.02
Manassas	908,907	-	-	2.7%	0.0%	2.7%	2,132	-8,045	\$ 24.24
McLean	576,657	-	-	6.0%	1.8%	7.8%	9,108	2,040	\$ 30.78
Merrifield	6,612,952	-	-	11.7%	1.5%	13.2%	69,125	244,145	\$ 32.25
North Arlington	114,517	-	-	0.0%	0.0%	0.0%	-	1,658	-
Oakton	1,461,615	-	-	29.4%	0.0%	29.4%	629	-28,131	\$ 23.59
Old Town	5,787,689	-	-	15.9%	1.4%	17.3%	30,581	78,349	\$ 37.06
Pentagon City	3,335,256	2,100,000	-	18.4%	0.0%	18.4%	-5,316	2,094,684	-
Potomac Yard	104,453	-	-	40.6%	0.0%	40.6%	-	-	\$ 47.00
Reston	19,021,811	-	670,486	21.8%	1.8%	23.6%	-48,136	-741,915	\$ 37.74
<b>Market total</b>	<b>160,631,791</b>	<b>2,156,964</b>	<b>2,018,263</b>	<b>19.9%</b>	<b>1.5%</b>	<b>21.4%</b>	<b>-615,981</b>	<b>-428,081</b>	<b>\$36.06</b>



# Northern Virginia Office Market Stats by Submarket

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2023)	Net absorption sf (YTD)	Direct asking rent FS
Rosslyn	9,260,633	-	-	20.1%	1.2%	21.3%	-32,528	-74,339	\$ 41.80
Route 7 Corridor	1,955,004	-	-	13.4%	1.8%	15.2%	-57,528	-52,159	\$ 29.64
Route 28 North	6,896,311	-	-	11.3%	0.8%	12.1%	-2,530	38,370	\$ 26.56
Route 28 South	11,661,147	-	-	16.5%	0.8%	17.3%	-138,189	-182,023	\$ 26.83
Springfield	5,084,508	-	-	20.2%	0.0%	20.2%	-126,113	-133,213	\$ 33.29
Tysons	24,125,890	-	796,277	22.5%	1.6%	24.1%	-87,898	-552,824	\$ 38.85
Vienna	922,670	-	-	50.6%	0.0%	50.6%	-	-345,076	\$ 26.37
Virginia Square	932,198	-	360,500	28.0%	3.6%	31.6%	3,839	-505	\$ 51.26
Woodbridge	965,482	-	-	15.7%	0.0%	15.7%	-1,392	2,414	\$ 28.28
<b>Market total</b>	<b>160,631,791</b>	<b>2,156,964</b>	<b>2,018,263</b>	<b>19.9%</b>	<b>1.5%</b>	<b>21.4%</b>	<b>-615,981</b>	<b>-428,081</b>	<b>\$36.06</b>

# Northern Virginia Office Market Stats by Class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q3 2023)	Net absorption sf (YTD)	Direct asking rent FS
Trophy	4,826,832	-	191,000	16.6%	1.8%	18.4%	-21,198	79,262	\$65.37
Class A	41,970,894	2,156,964	1,827,263	18.3%	1.7%	20.0%	-46,722	1,499,141	\$40.97
Class B	90,813,756	-	-	21.2%	1.6%	22.8%	-539,965	-1,304,963	\$35.14
Class C	23,020,309	-	-	18.7%	0.7%	19.4%	-8,096	-701,521	\$28.50
<b>Market total</b>	<b>160,631,791</b>	<b>2,156,964</b>	<b>2,018,263</b>	<b>19.9%</b>	<b>1.5%</b>	<b>21.4%</b>	<b>-615,981</b>	<b>-428,081</b>	<b>\$36.06</b>



# Office Insights

## Glossary of Terms

### Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

### Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

### Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

### Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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information visit **avisonyoung.com**

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