

A photograph of a city skyline in Northern Virginia, featuring several tall office buildings. In the foreground, a row of cherry blossom trees in full pink bloom lines a path, with a body of water reflecting the scene. The sky is clear blue.

**AVISON
YOUNG**

Northern Virginia Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts and vaccination progress have allowed the Northern Virginia unemployment rate to rebound from a high of 10.1 percent to **3.5 percent**.
- Office-using jobs have only declined by **0.5 percent** compared with 3.6 percent across all sectors, underscoring the resilience of the office sector and the vulnerability of discretionary segments of the economy.



Recovery rate

- Activity across the region at workplaces, shopping centers, universities, and other areas of interest is **48.7 percent** of pre-COVID levels, as measured by extrapolated cell phone location data.
- Looking at office locations specifically, visitor traffic is only **33.3 percent** of pre-COVID levels, suggesting that some office employees are opting to work remotely even as they return to normalcy in other aspects of life.



Office demand

- Leasing activity has paused, on pace to finish **60.0 percent** below the past 20 years' annual average if activity does not pick up in the second half of 2021.
- Renewals have become more common, accounting for **48.4 percent** of post-COVID activity.
- The average office lease term length has begun to recover after falling **10.6 percent** at the onset of the pandemic.

Key takeaways



Office supply

- Direct and sublease vacancy have achieved all-time highs, totaling **18.2 percent**.
- Vacant sublease space increased by **121%** since the end of 2019 but remains below the levels seen in either of the past two economic downturns.
- The construction pipeline has thinned, which should help curb vacancy increases, and most active projects are either substantially preleased or are owner-occupied buildings like Amazon's HQ2.



Pricing trends

- Average concessions have risen sharply since February 2020, with both the average free rent period and average TI allowance up more than **20.0 percent**.
- The rise in concessions has driven a wedge between base rents and net effective rents: the average NER is now **18.7%** below the average base rent.



Capital markets

- Investment activity has been practically at a standstill in the first half of 2021 after finishing 2020 **33.4 percent** below 2019 levels.
- Pricing for stabilized assets has fallen slightly, **5.9 percent**, since March 2020.
- Value-add sales have continued to account for an increasing share of Northern Virginia's sale activity and have made up **41.3 percent** of dollar volume in 2020-2021.

01.

Economic and demographic trends

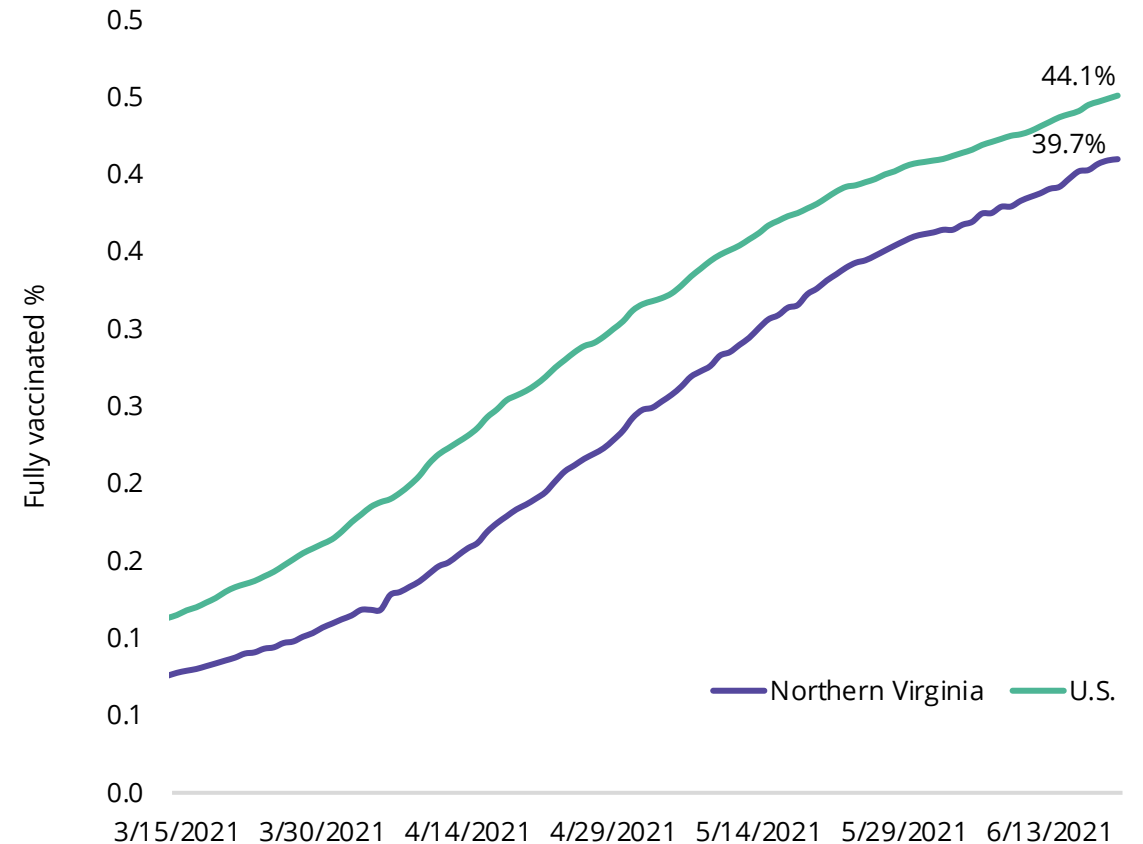
The pandemic caused a sharper disruption to the Northern Virginia economy than past recessions did, but the region fared well by national standards and office employment proved resilient.

Vaccination rates

39.7%

Share of total Northern Virginia population that is fully vaccinated

Northern Virginia vaccination rates (for those that have received their final shot) have slightly lagged the United States overall but continue along a strong trajectory that parallels the national rate.



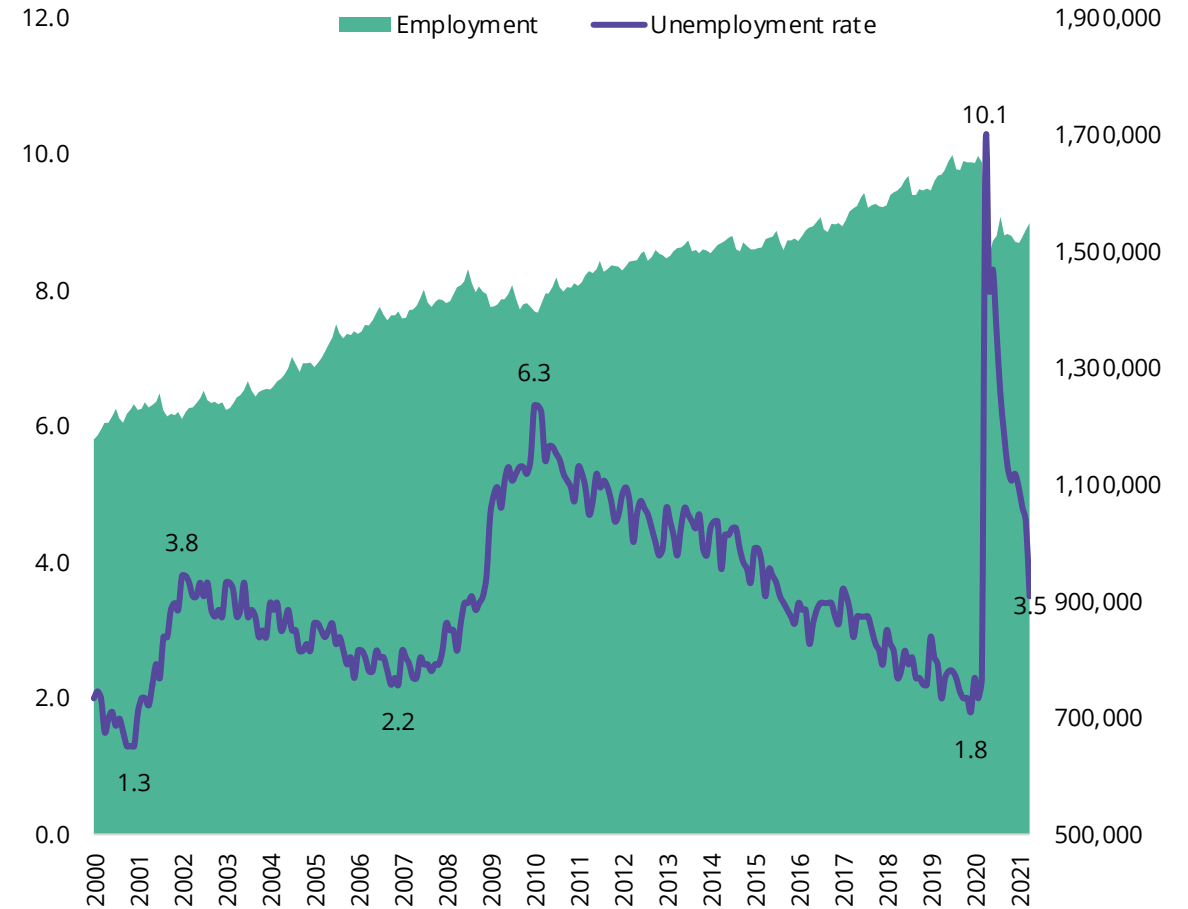
Source: CDC

Employment and unemployment rate

3.5%

Northern Virginia unemployment rate as of April 2021

At the onset of the pandemic, unemployment shot from 2.3% in March 2020 to 10.1% in April 2020. Since then, the region has regained more than 64,000 jobs and unemployment has fallen to 3.5%.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-0.5%

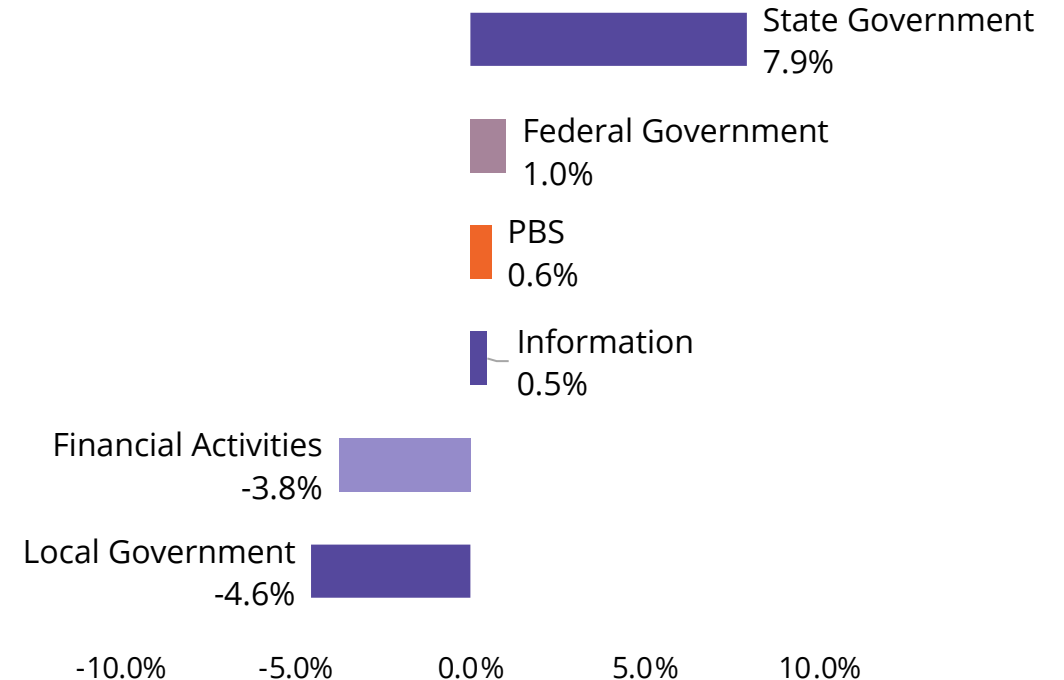
Change in office-using employment since February 2020

Total employment in Northern Virginia is down by 3.6% since February 2020, but office-using jobs have contracted by just 0.5% as most employment losses were in sectors such as retail and hospitality that were severely impacted by pandemic-related restrictions.

[VIEW DASHBOARD](#)

Total change in New York MSA* job gains/(losses)

February 2020 to April 2021



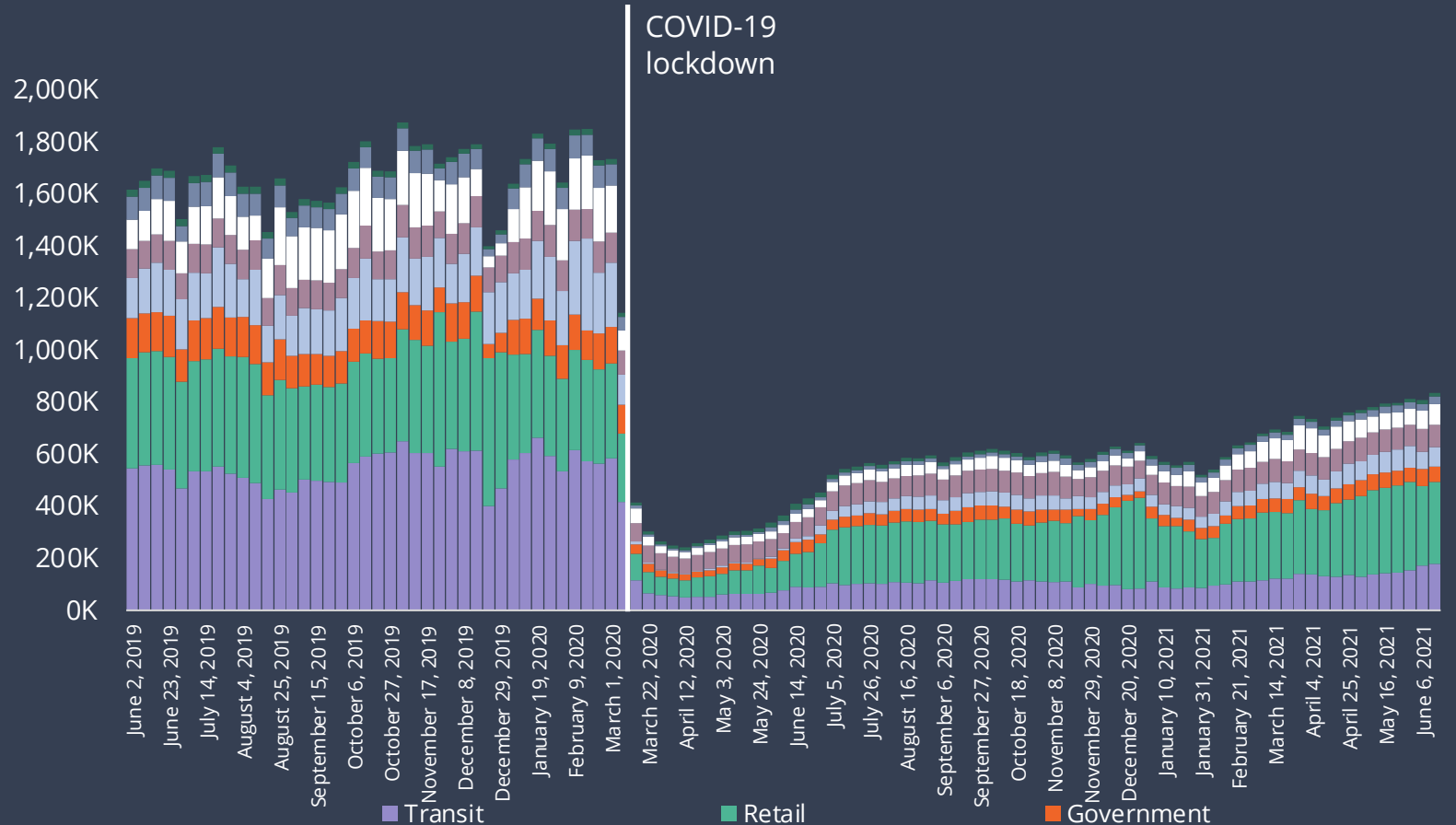
Note: Not seasonally adjusted data. Northern Virginia subset of Metro DC metropolitan statistical area.
Source: Bureau of Labor Statistics

Recovery index

48.7%

Regional activity in past 6 weeks compared to the 6 weeks before lockdown

After remaining stagnant for all of 2020, visitor traffic to regional areas of interest has begun to increase slowly in 2021. Across all sectors, these locations have averaged nearly half of pre-COVID activity over the past 6 weeks.



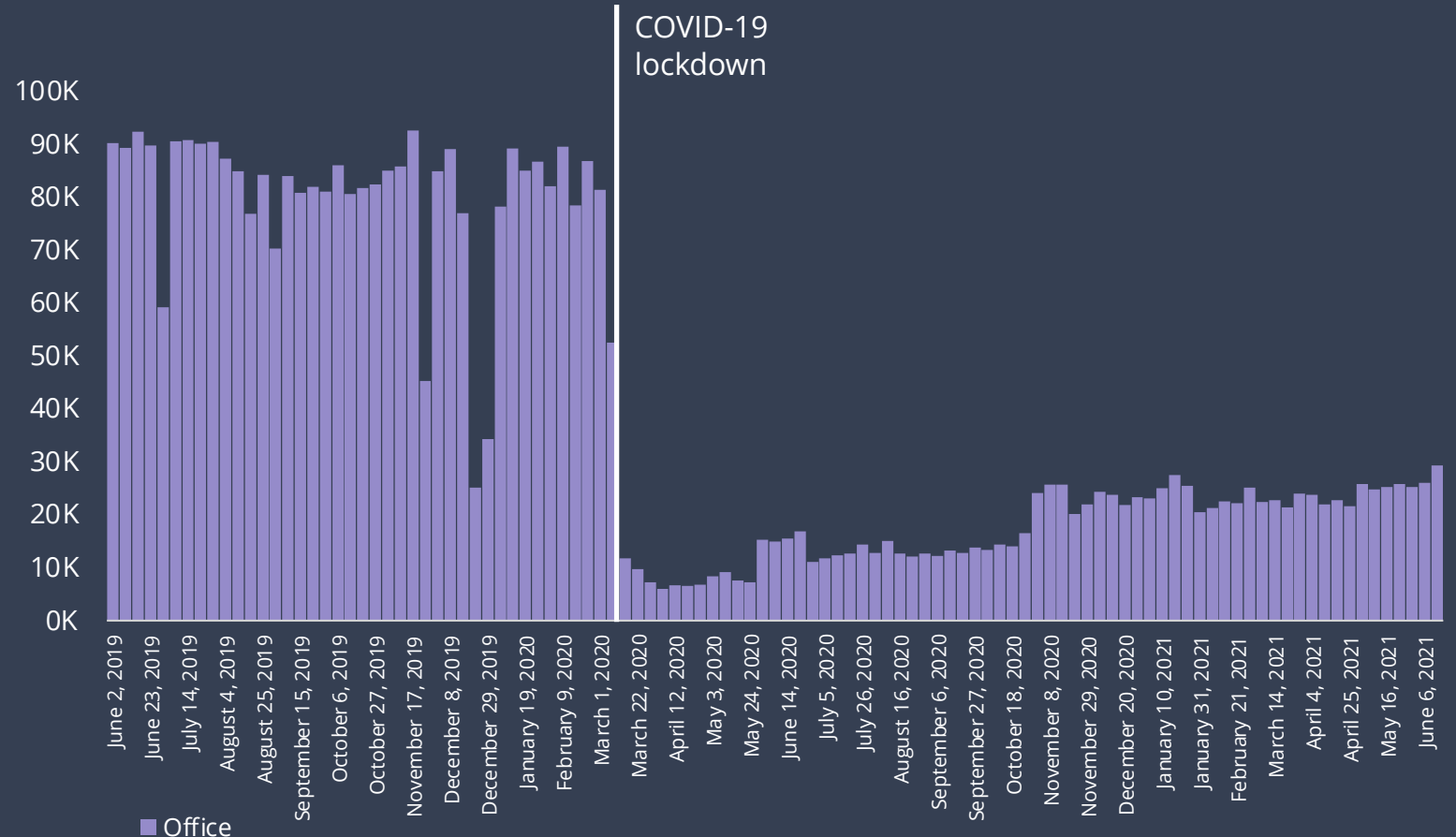
Note: Representative areas of interest. Weekdays only.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Source: Orbital Insights, AVANT by Avison Young

Recovery index

33.3%

**Regional office activity
in past 6 weeks
compared to the 6
weeks before lockdown**

Office buildings haven't seen quite the resurgence in activity that the region overall has experienced, with just one third of pre-COVID weekly traffic returning.



Note: Representative areas of interest. Weekdays only.
Pre-COVID period measured as 12/1/2019 to 3/8/2020.
Source: Orbital Insights, AVANT by Avison Young

02.

Office occupier conditions

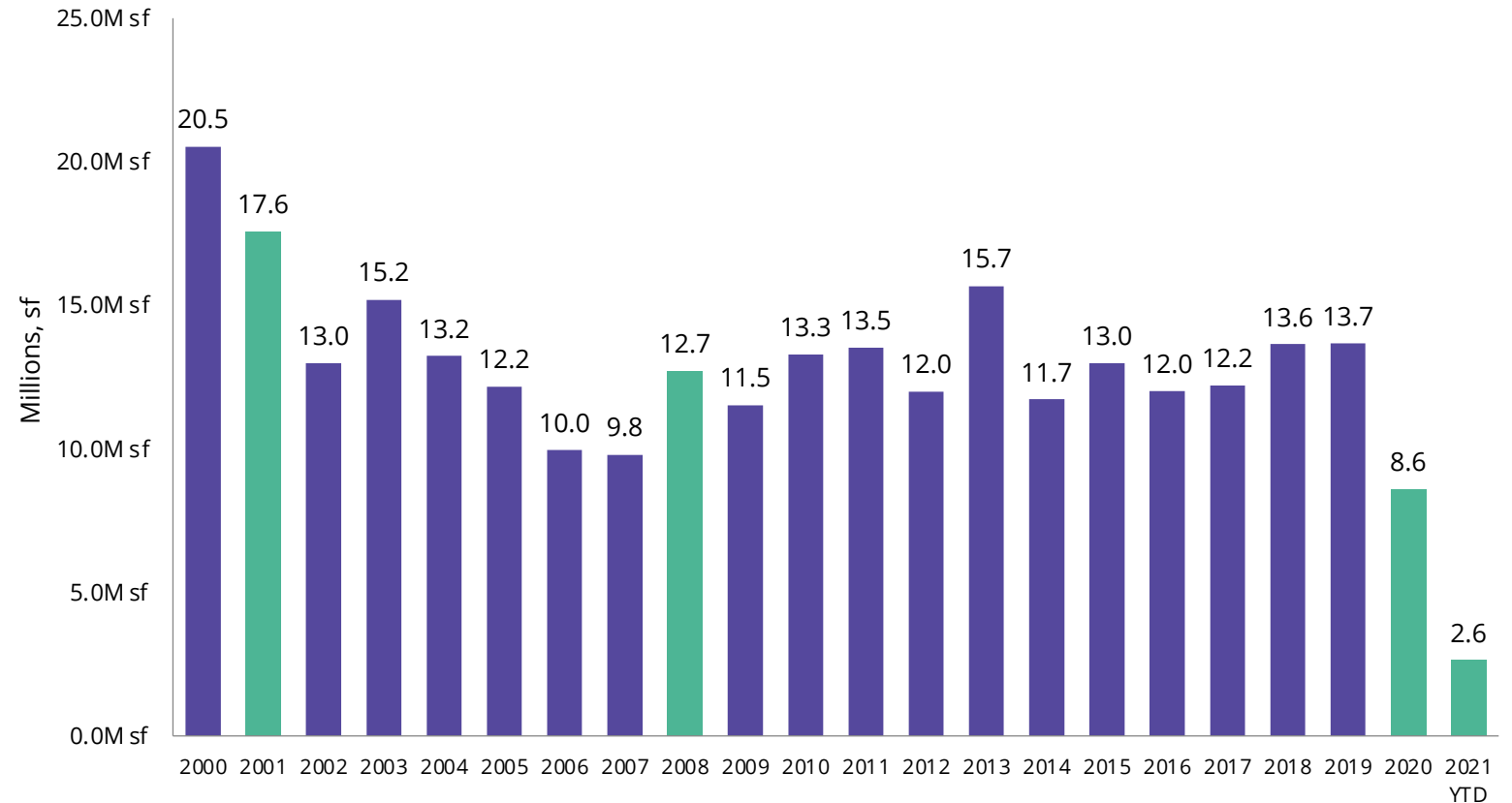
With demand dramatically hampered by the pandemic, vacancy has hit record highs and concessions have followed suit.

Office leasing activity

-47.5%

First half 2021 leasing activity vs. first half 2020 leasing activity

Unlike past recessions, in which Northern Virginia's office market was unimpacted or even positively impacted, pandemic-related fears and restrictions have dramatically suppressed office leasing activity.

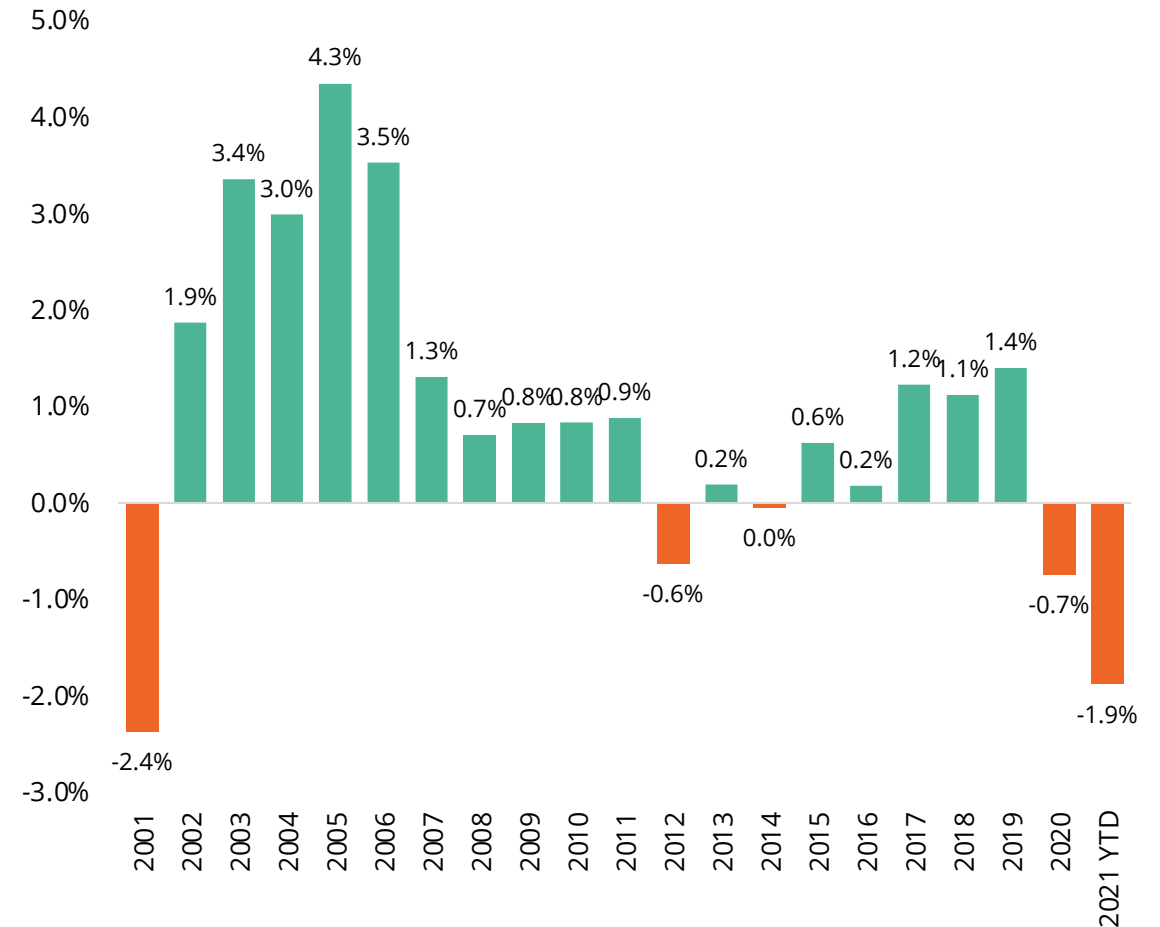


Source: AVANT by Avison Young

-2.6%

Net absorption as a percentage of inventory, 2020 through Q2 2021

While Northern Virginia is typically resilient in downturns and weathered the Global Financial Crisis while continuing to gain occupancy, the dramatic shift in office use patterns due to COVID-19 has led to 4.7 million sf of negative absorption since the start of 2020.



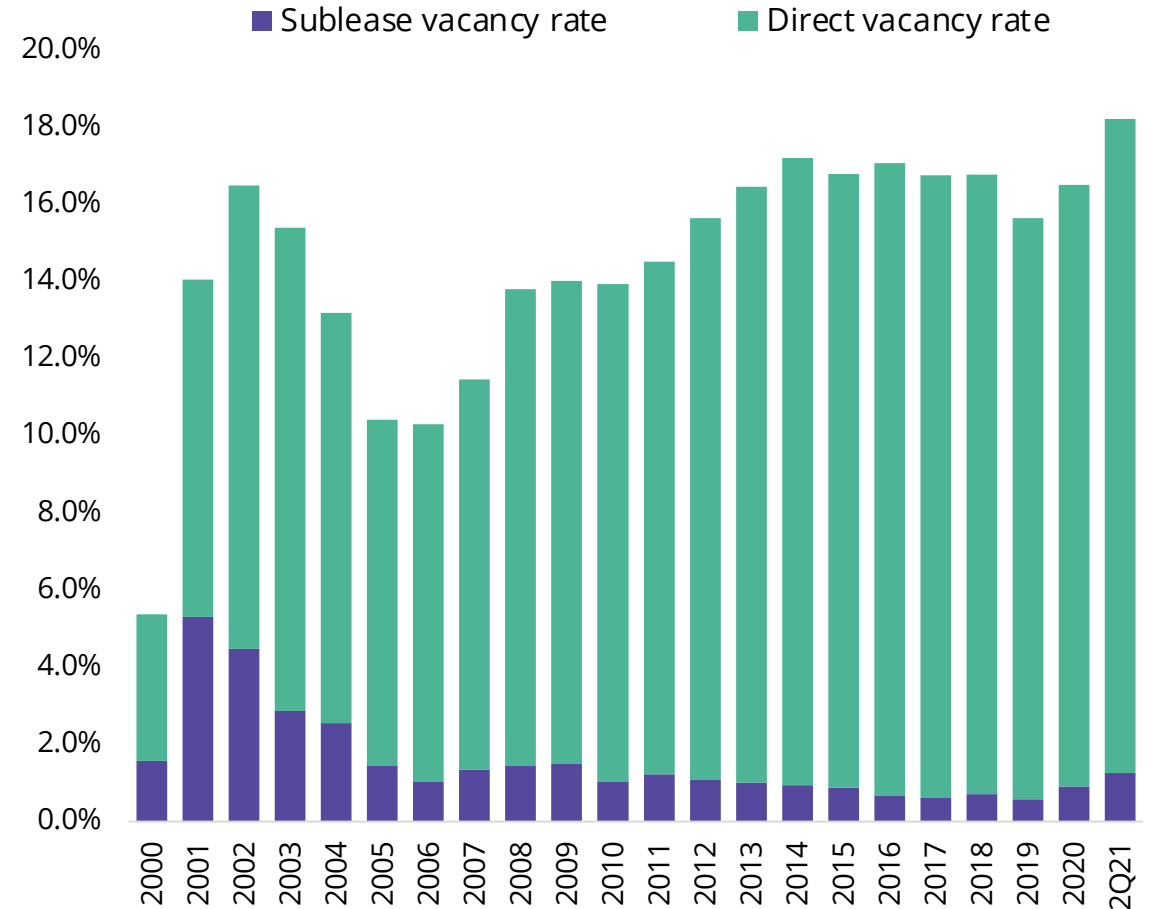
Source: AVANT by Avison Young

Vacancy rate

18.2%

**Record high Northern Virginia
vacancy as of Q2 2021**

Total vacancy has reached its highest level in at least two decades, though sublease vacancy remains lower than in either of the past two cycles.



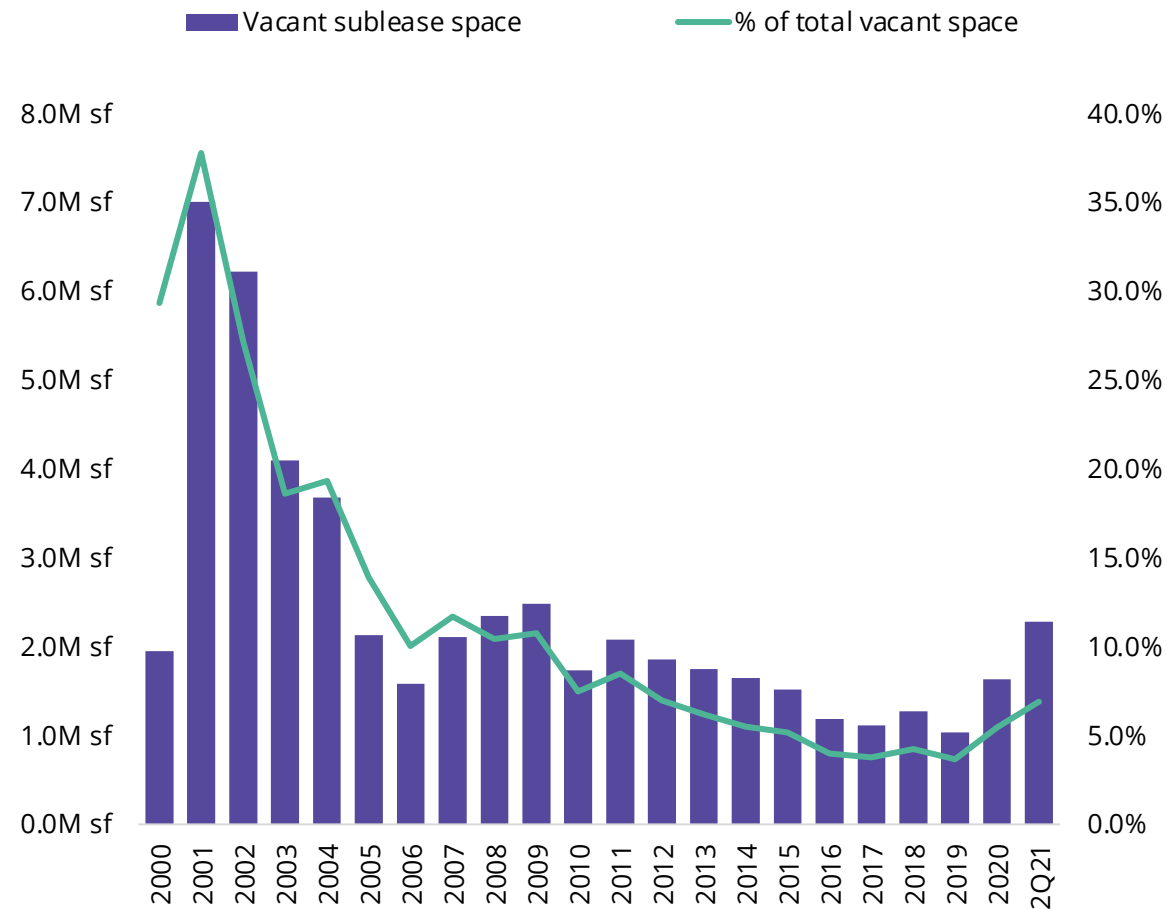
Source: AVANT by Avison Young

Vacant sublease space

121%

Rise in sublease vacant space since end of 2019

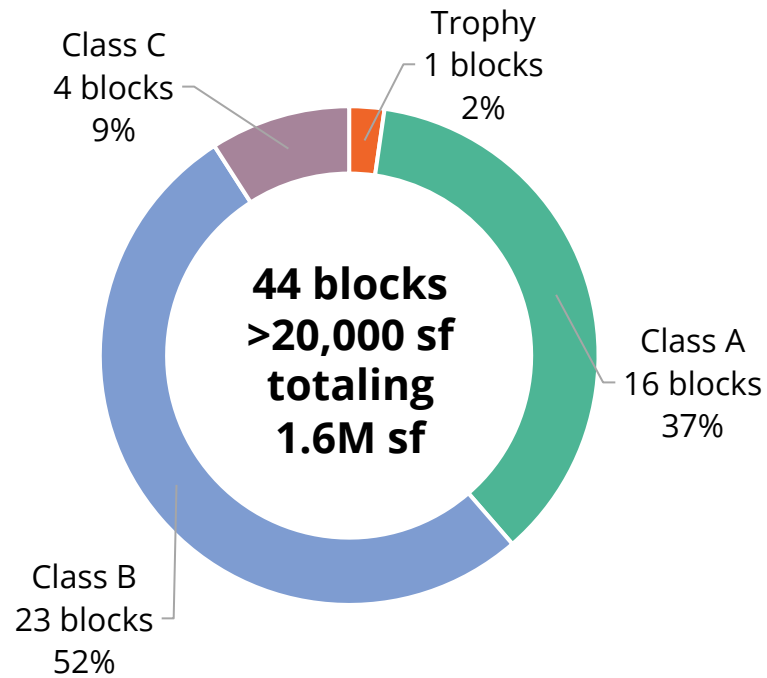
While sublease space has more than doubled in comparison to 2019, it remains slightly below what was seen after the Global Financial Crisis and far below the dot-com bust.



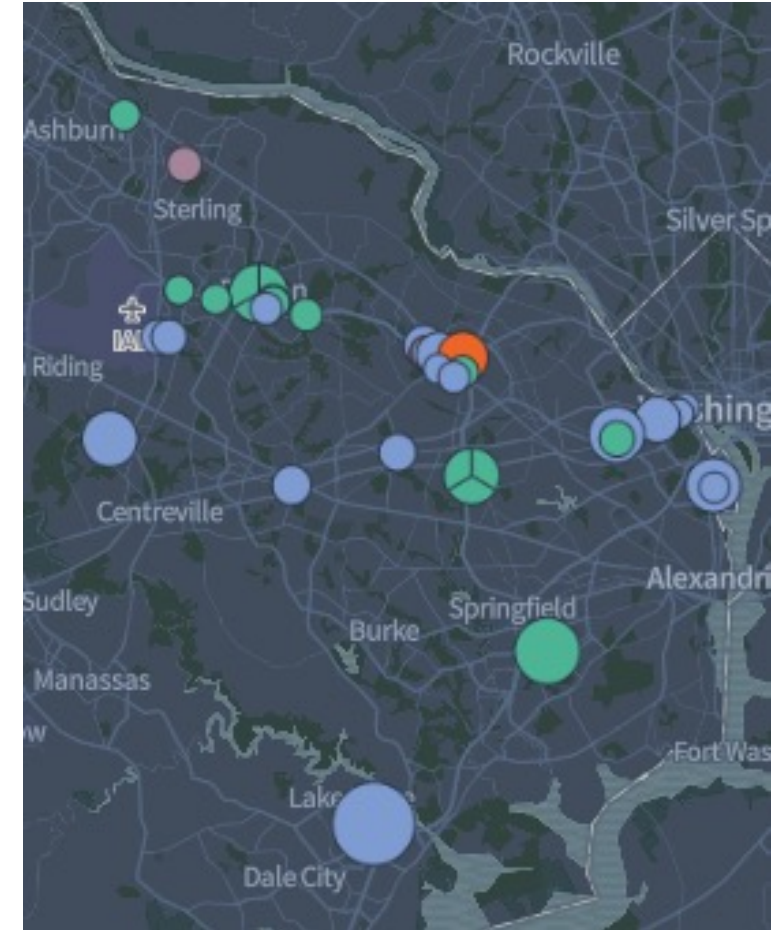
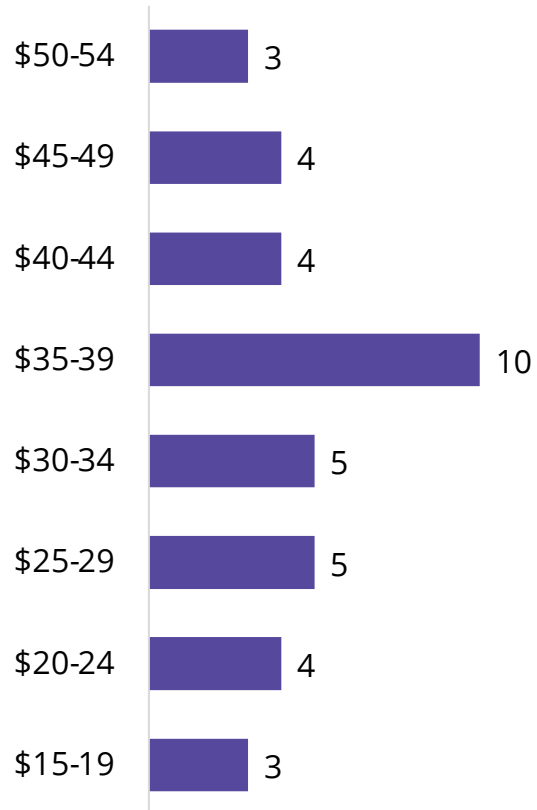
Source: AVANT by Avison Young

Sublease supply pipeline

Building classification



Asking rent per square foot



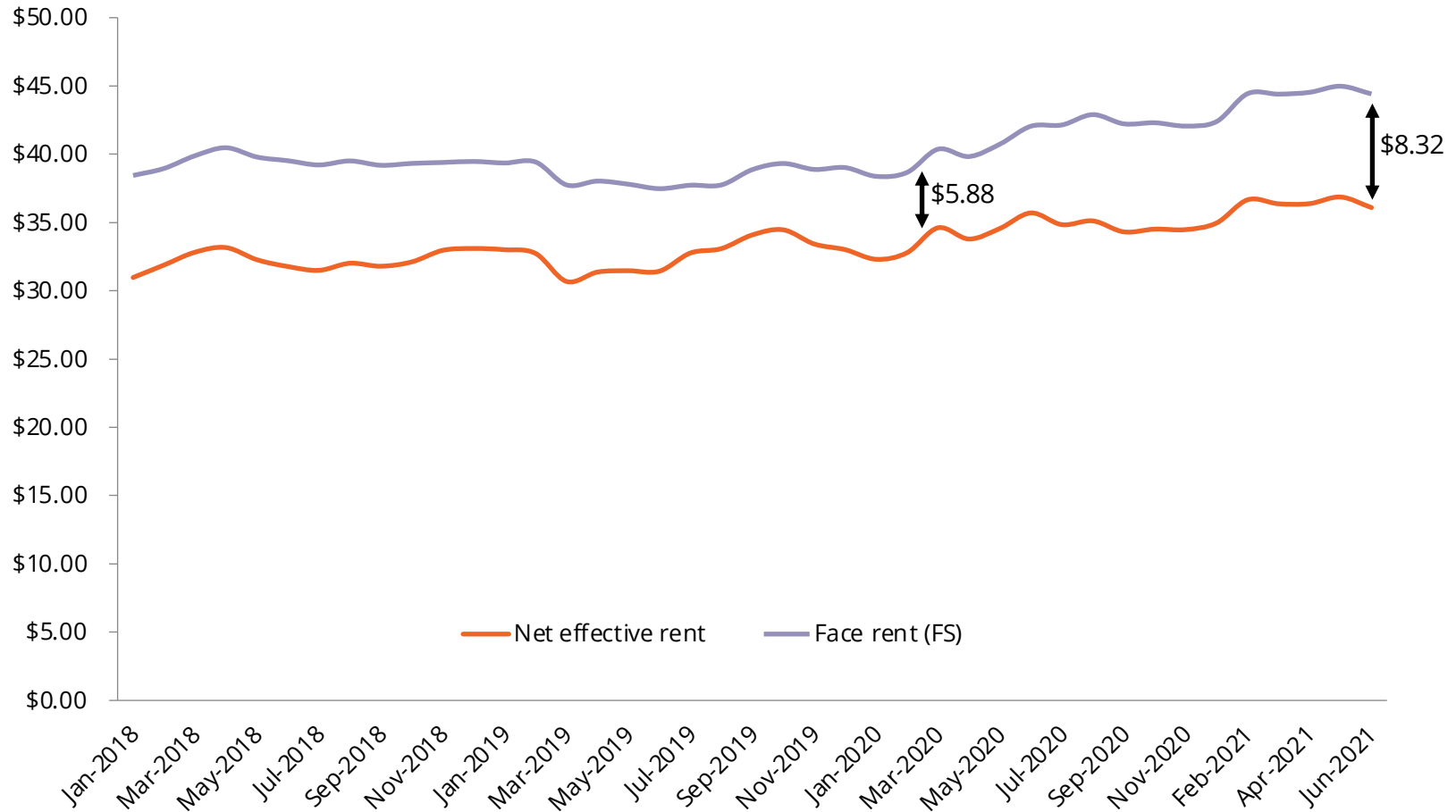
Source: AVANT by Avison Young

Net effective rents and base rents

-18.7%

Current spread between average face rents and average NER

Rents in Northern Virginia haven't suffered nearly as much as in other markets, partly due to a flight to quality within the Class A segment, but increased concessions have driven a wedge between base rents and net effective rents.



Note: Class A office properties. Trailing 12-month unweighted averages. Excludes subleases, renewals and expansions. Source: AVANT by Avison Young

Class B lease economics after the pandemic

**2018 to
03/2020**

Period

\$36.61 psf

Average
base rent

10 months

Average free
rent period

\$76 psf

Average tenant
improvement
allowance

\$30.29 psf

Average net
effective rent

**04/2020
to today**

Period

\$34.39 psf

Average
base rent

13 months

Average free
rent period

\$106 psf

Average tenant
improvement
allowance

\$22.74 psf

Average net
effective rent

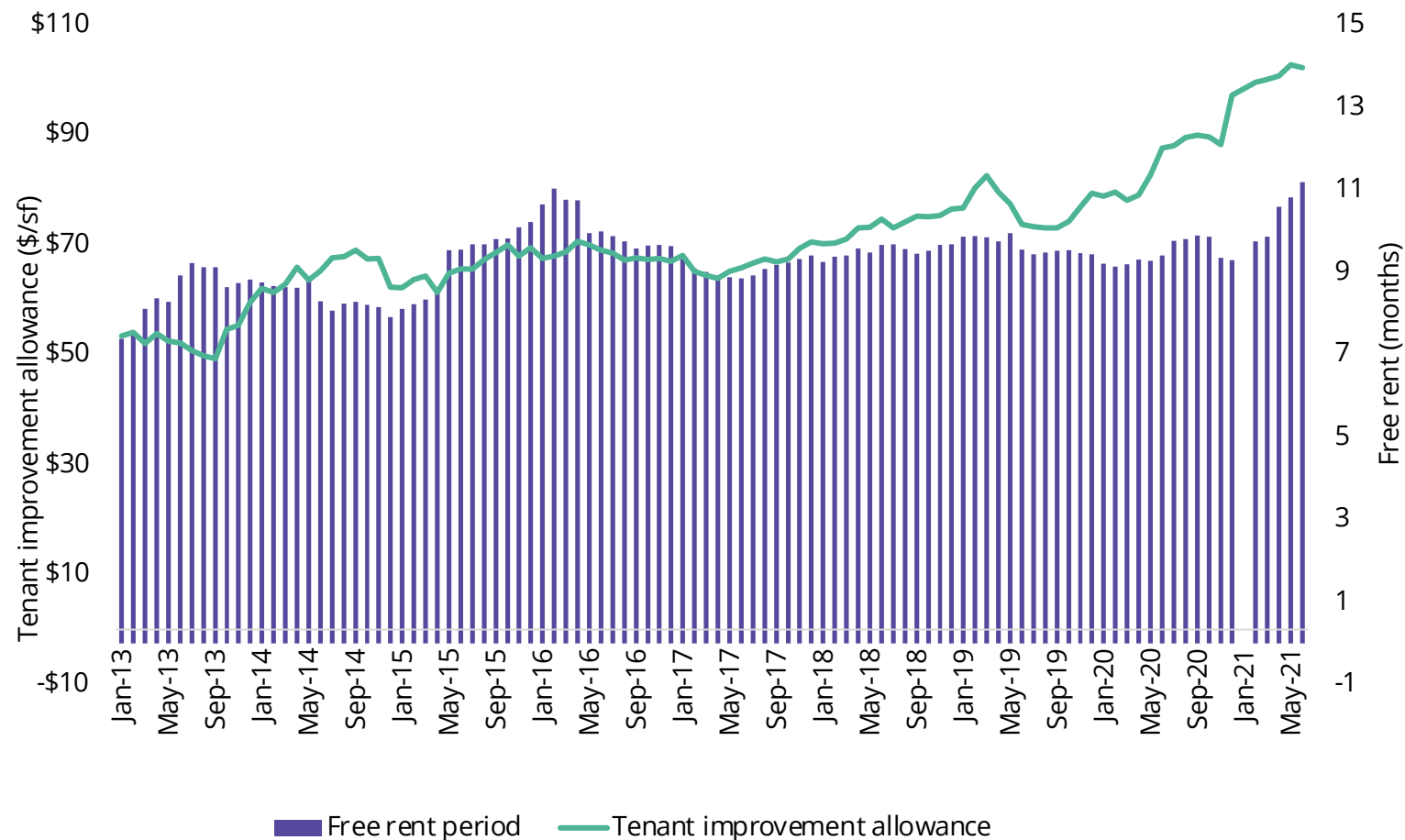
Note: Class B direct relocations only, normalized for 10-year lease terms.
Source: AVANT by Avison Young

Concessions

28.5%

Rise in average tenant improvement allowance since February 2020

Concessions have increased significantly since the onset of the pandemic, with average TI rising to \$102 (+28.5%) and average free rent period up to 11.2 months (+22.5%).



Note: Class A office properties.
Trailing 12-month unweighted averages. Excludes subleases, renewals and expansions.
Normalized to 10-year lease terms. Source: AVANT by Avison Young

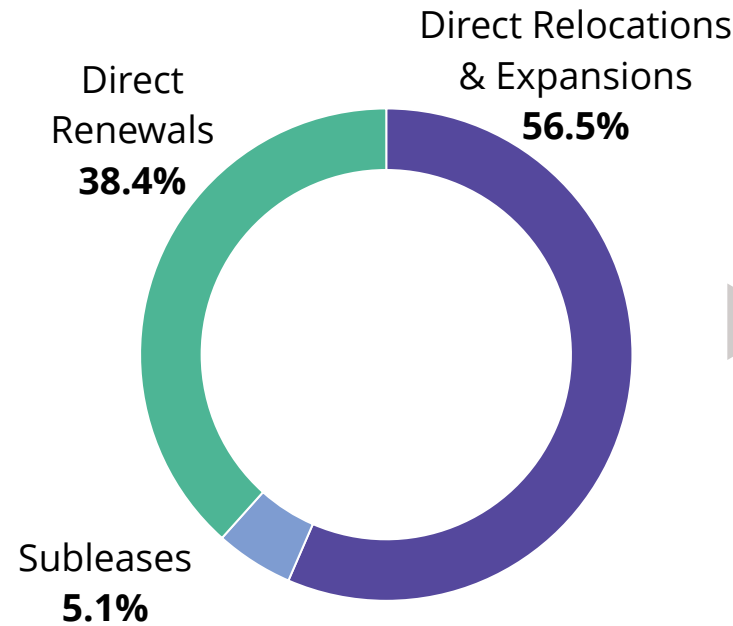
Transaction activity by lease type

48.4%

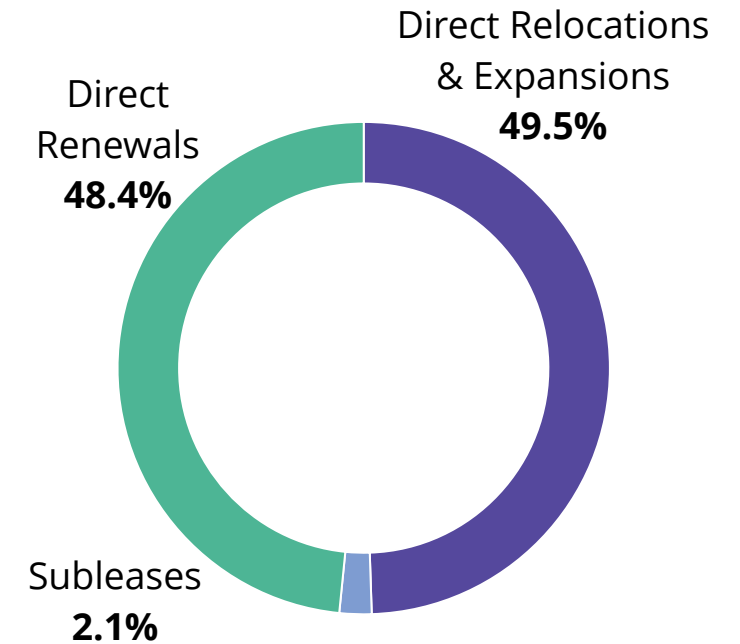
Renewals share of office leasing activity post-COVID

Renewals have accounted for an elevated share of leasing activity since the onset of the pandemic. This is likely due in part to the difficulty of touring relocation options during COVID, and in part due to tenants' postponing major relocation decisions.

2018-3/2020



Post-COVID



Source: AVANT by Avison Young

Average lease term

+3.7%

Rise in average lease term since September 2020

The pandemic cast uncertainty across the leasing market, and average lease term fell by 11 months (10.6%) between March and September 2020. That trend has begun to reverse, however, and lease terms have risen by 3.2 months (3.7%) since September.



Source: AVANT by Avison Young

Development pipeline

8 properties

under construction

4.6 msf

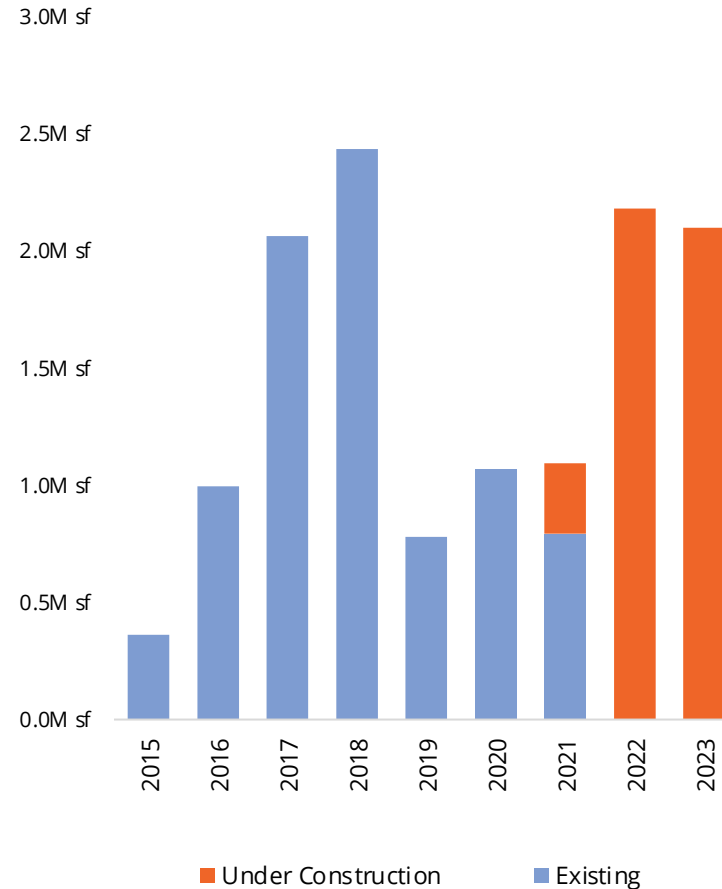
proposed or under construction

2.6%

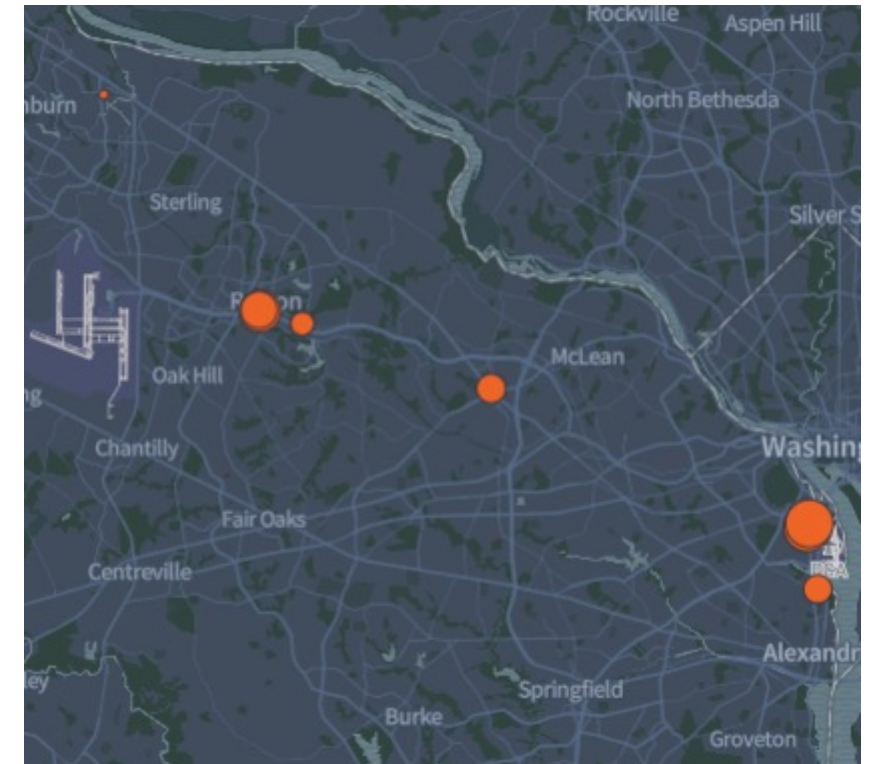
share of office inventory

1991

average delivery date of existing Northern Virginia offices



Source: AVANT by Avison Young



03.

Capital market conditions

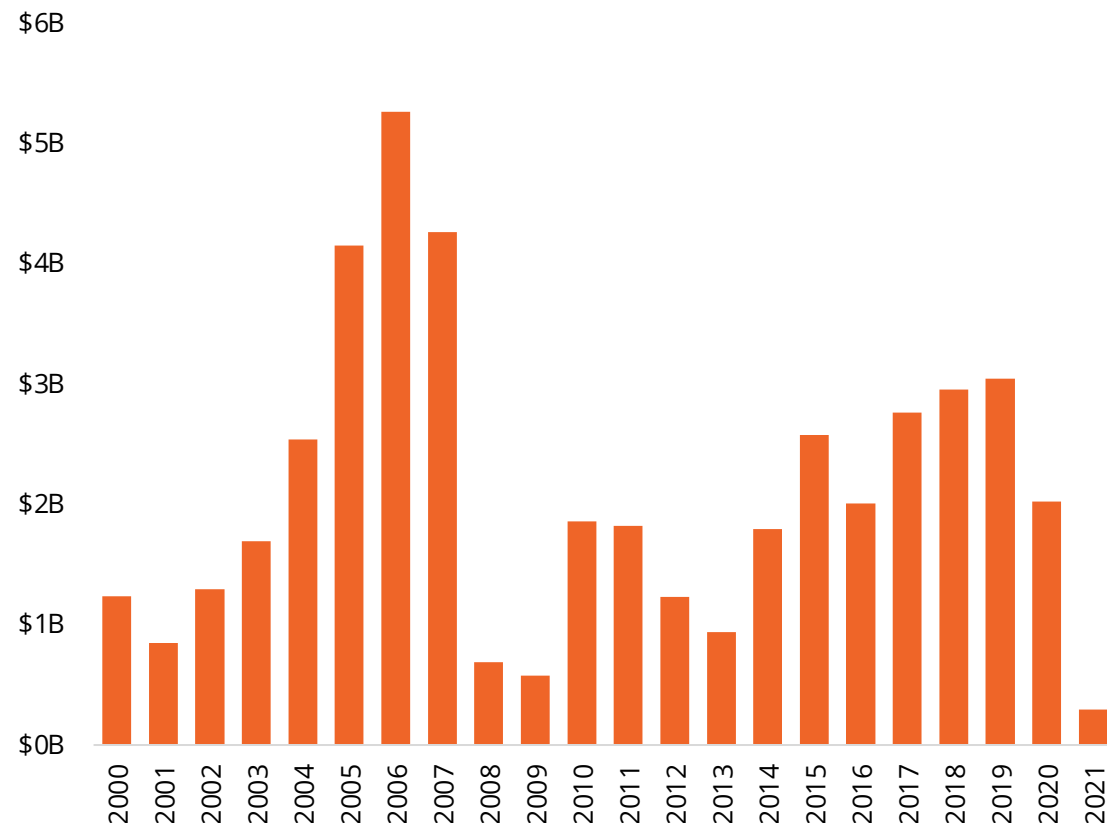
Investment in Northern Virginia has started off the year slowly, but a recent increase in offerings on the market could lead to a stronger second half.

Office investment dollar volume

\$2.3B

Northern Virginia office dollar volume 2020 to present

Investment sale volume finished 2020 down 33% compared to 2019, which was strong in comparison to the 84% drop seen in the last recession, but volume has begun 2021 at a very slow pace. However, at least 15 buildings have come to market* in Northern Virginia in the past month, which could signal an uptick in activity in the second half of 2021.



Source: AVANT by Avison Young, RCA
*includes buildings rumored but not yet launched for sale

Office asset pricing

-5.9%

Northern Virginia stabilized office pricing since March 2020

The pandemic put a damper on strong pricing growth among stabilized office sales; pricing per sf has fallen 5.9% since March 2020, but remains near record highs, having risen sharply in the prior 24 months.



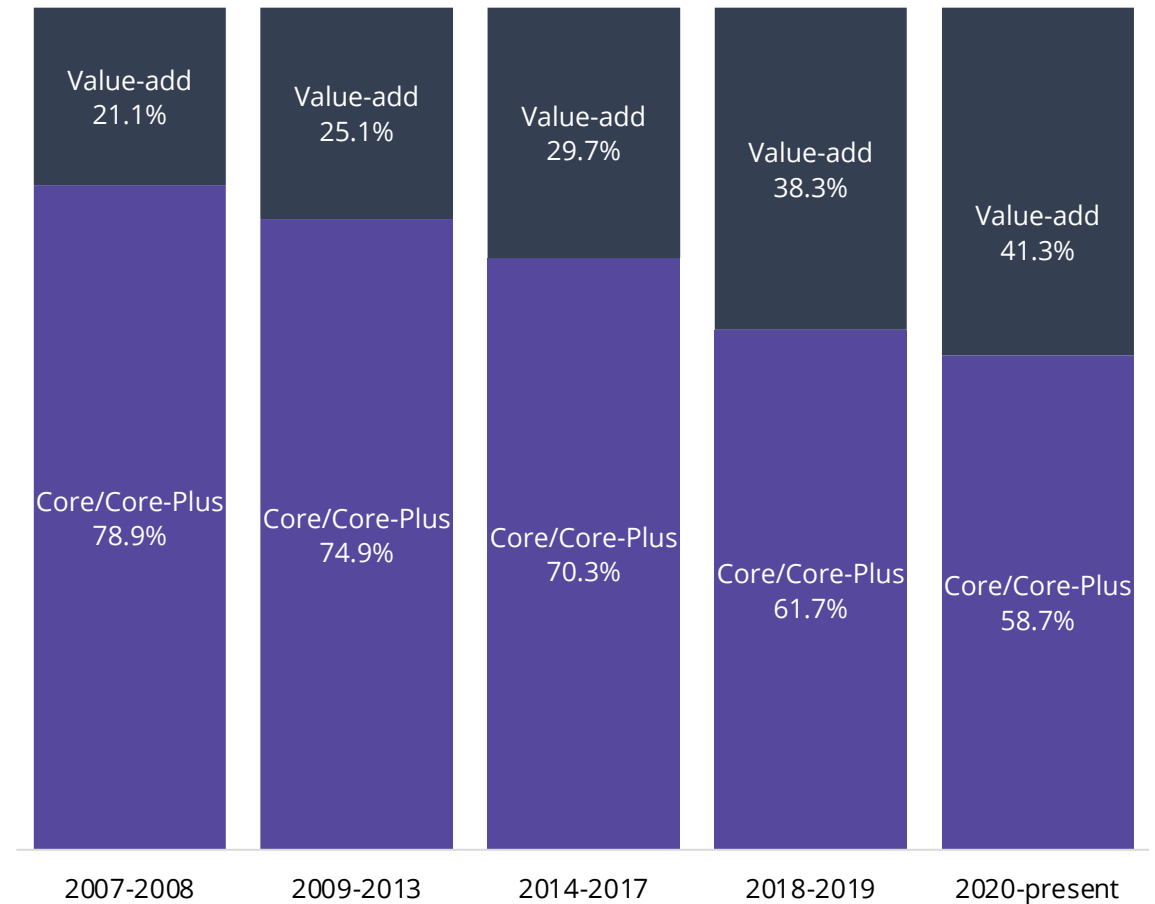
Source: AVANT by Avison Young, RCA
Core and Core-plus profile sales.

Office investment asset profiles

41.3%

Value-add share of investment sales in the pandemic

Although investors in many markets have targeted safer, stabilized assets during the downturn, value-add investments continue to account for an increasing share of sale volume in Northern Virginia.



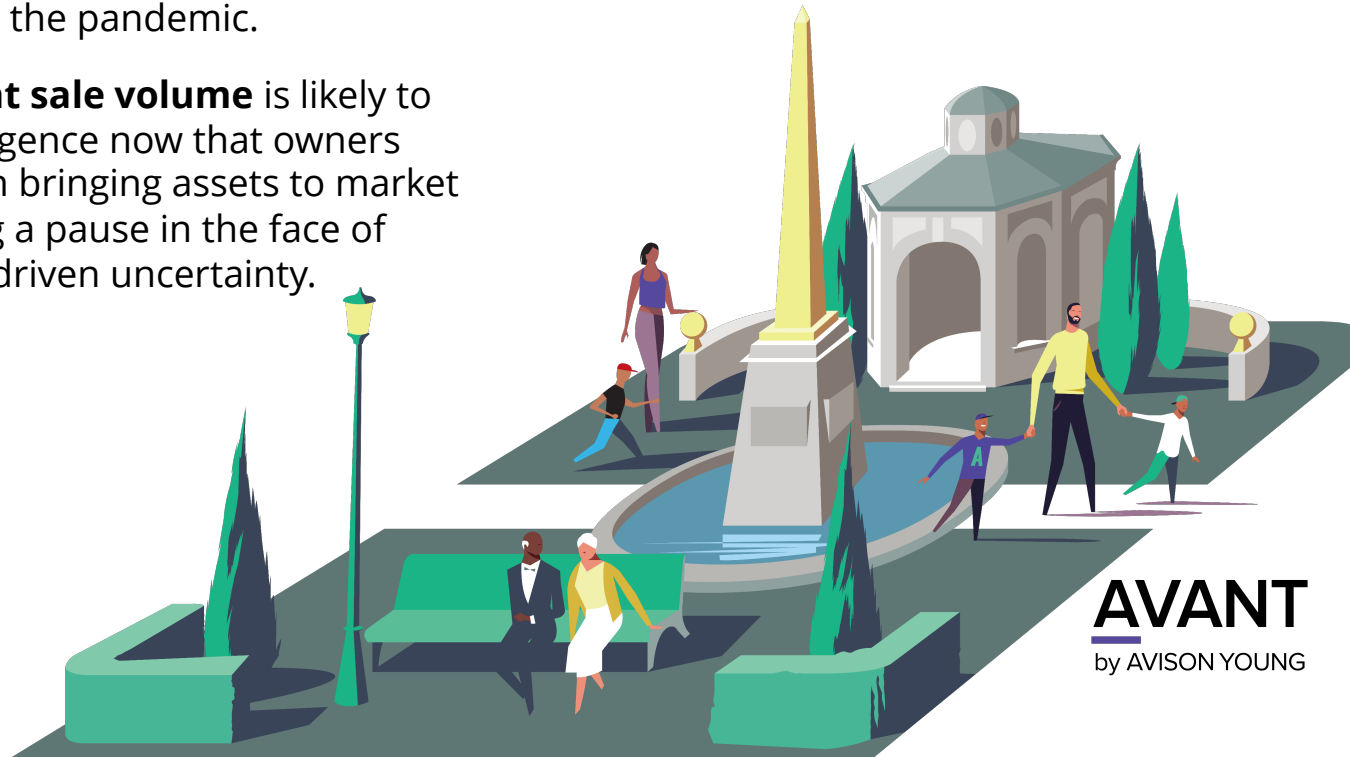
Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- After proposing a 2022 budget with **across-the-board funding increases** for cabinet-level agencies, President Biden has recently called for **increased federal contract procurement** to drive key policy goals, which should directly benefit the robust government contracting community in Northern Virginia.
- The intensity of the **amenity arms race** will continue to grow as landlords seek to attract companies back to the office and compete with one another to secure new leases from a shrinking pool of potential tenants.
- **Spec suites** and **flexible leasing** (taking forms like short lease terms or termination options) will be useful tools for landlords courting smaller office tenants that may soon re-enter the leasing market after remaining dormant in the pandemic.
- **Investment sale volume** is likely to see a resurgence now that owners have begun bringing assets to market after taking a pause in the face of pandemic-driven uncertainty.



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Let's talk

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