



Northern Virginia office market report

Q2 2024

**AVISON
YOUNG**

Northern Virginia Office Market Trends

12.1%

Concessions as a Percentage of Overall Lease Value

After a spike in lease concessions in late 2021, they are now stabilizing relative to rent prices.

This stability benefits the leasing market by helping prospective tenants gauge appropriate concessions and enabling landlords to forecast and budget more accurately.

\$1.98 B

Amount Raised for Debt Financing

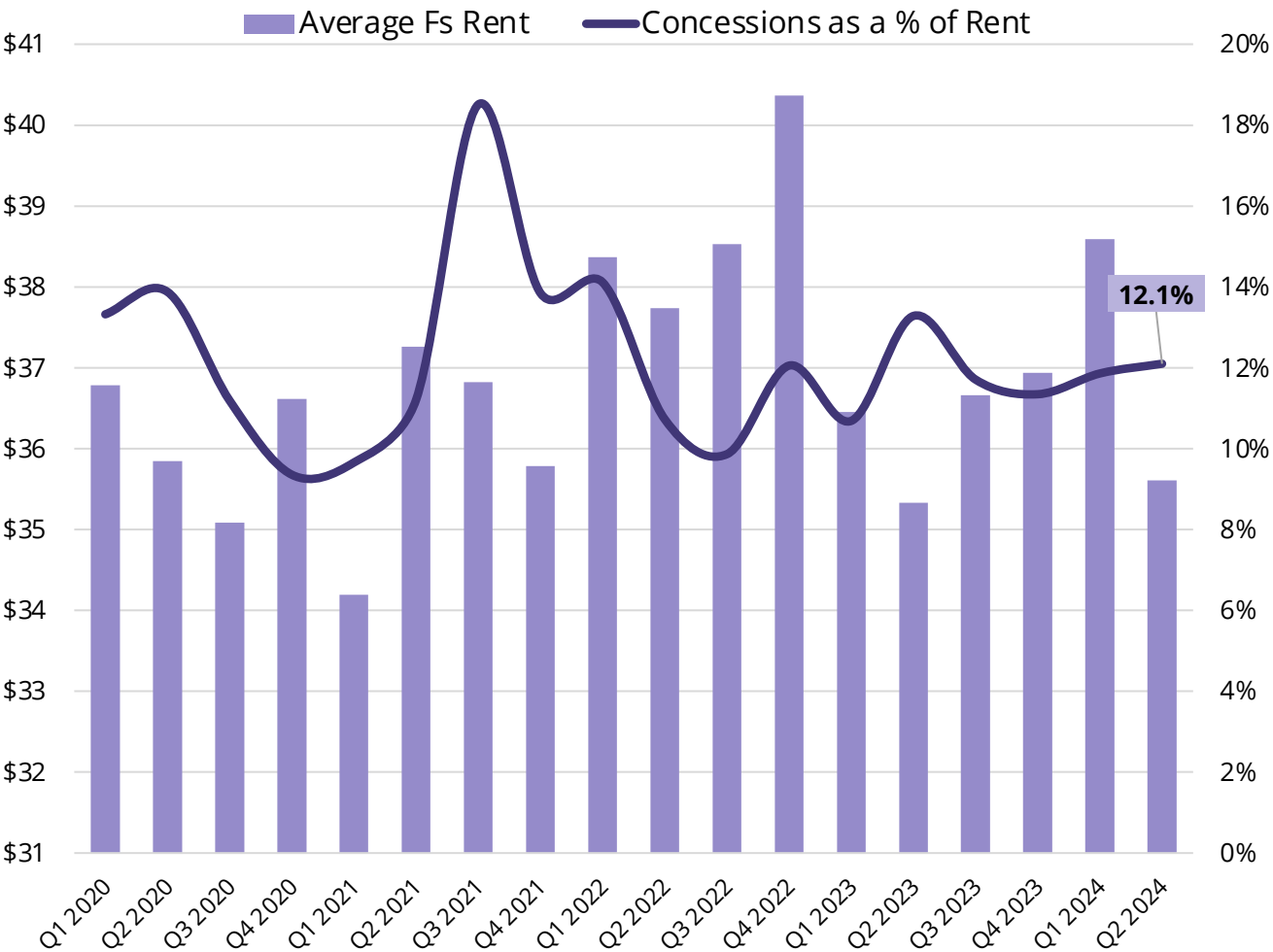
Venture capital raised for debt funding in Northern Virginia has surged in the last quarter, which should significantly benefit office leasing. With this influx, tenants and landlords can adjust their financial strategies, sign leases, and improve lease packages for prospective tenants in the market.

\$423 M

Investment Sales Volume

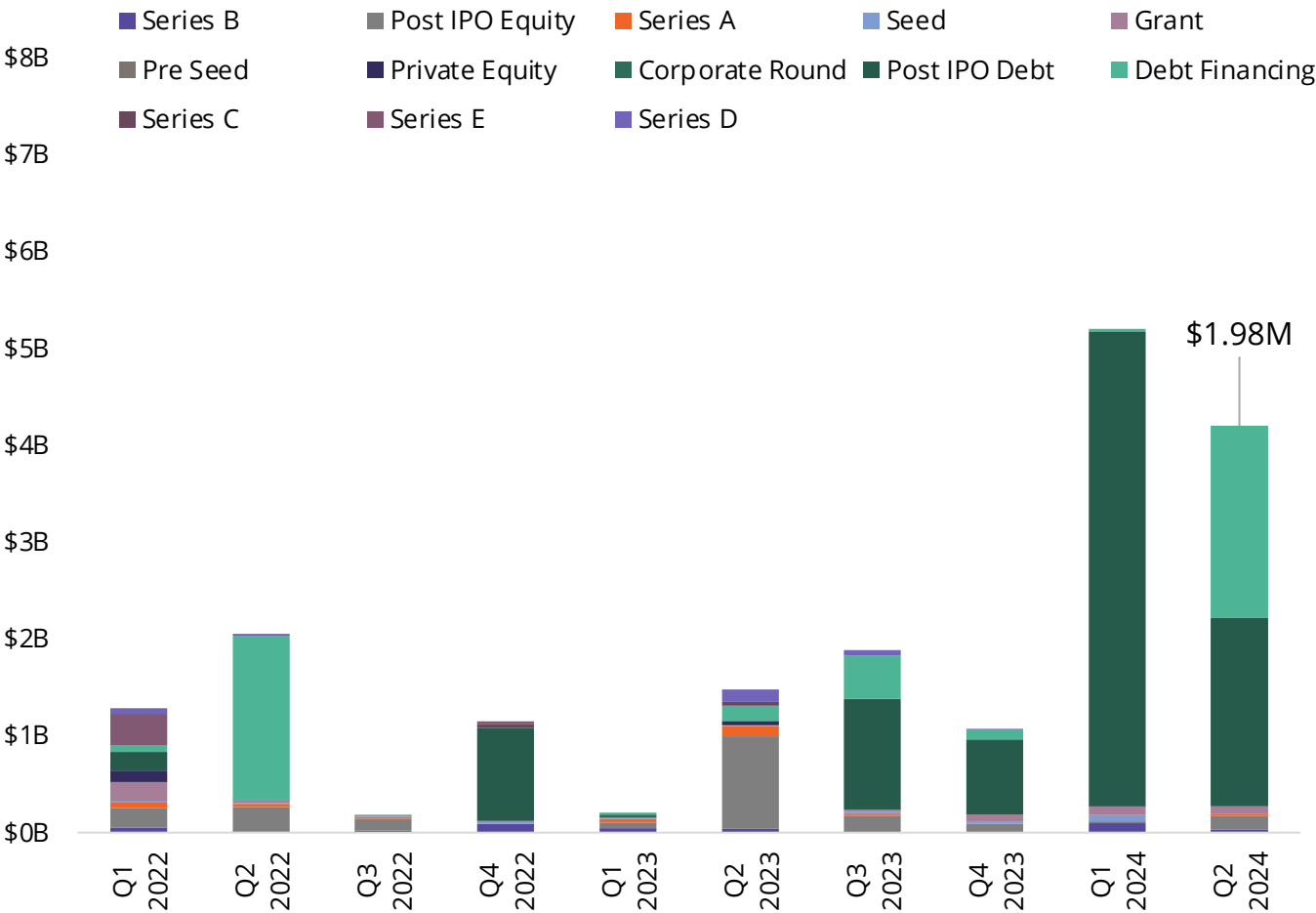
Office investments in the area saw an uptick in volume compared to last quarter. As the value of office properties continues to decline, investors are finding more opportunities to purchase buildings at a price point that makes financial sense for them.

The Stabilization of Lease Concessions



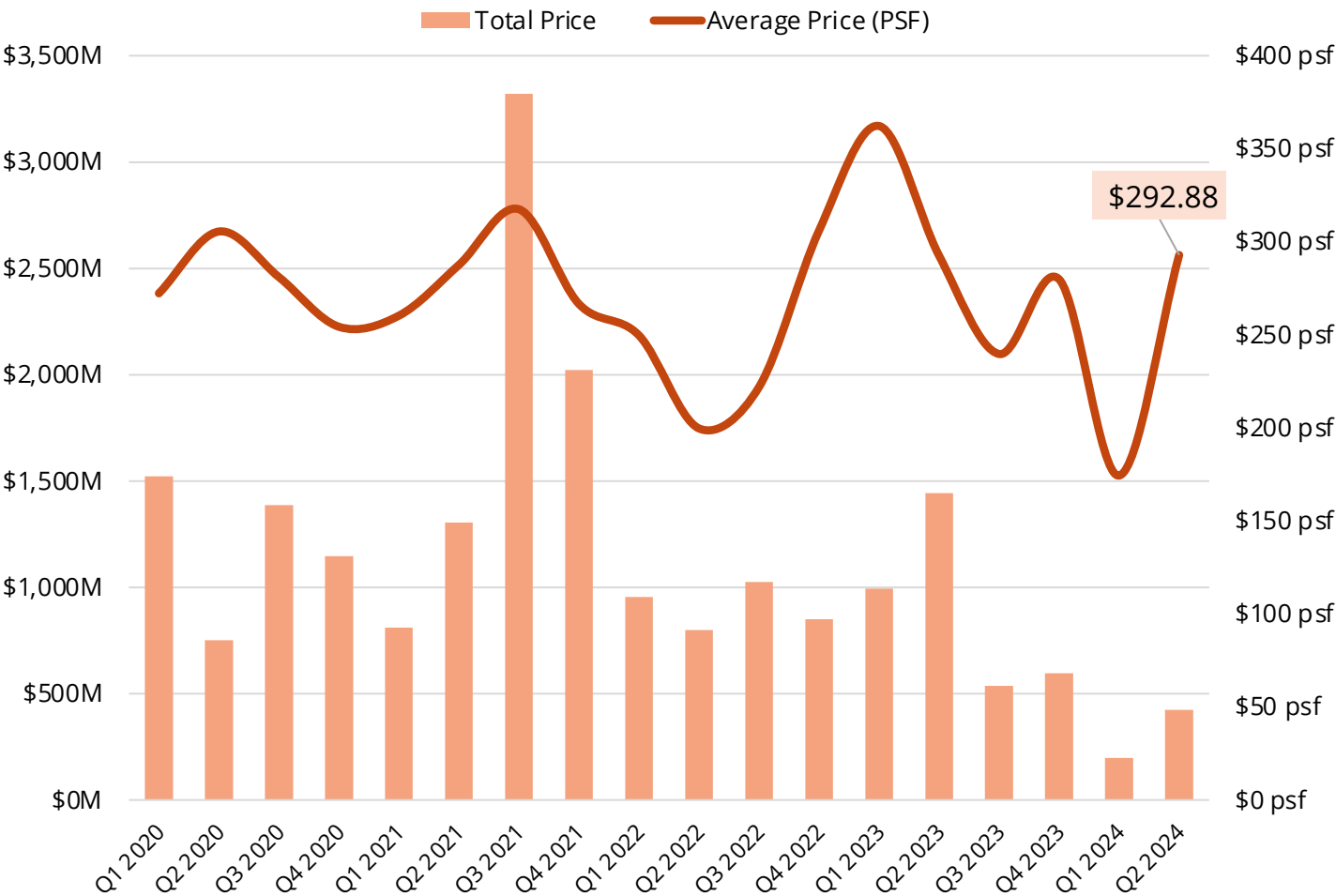
After seeing lease concessions spike in the latter half of 2021, they are starting to stabilize relative to rent prices. This holds well for the leasing market because the consistency allows prospective tenants to get a better idea of what concession packages they should expect, and enables landlords to properly forecast and incorporate these prices into their budgets.

Debt Financing in Northern Virginia



Venture capital raised for debt funding in Northern Virginia has seen a tremendous spike in the last quarter. This bodes well for future office leasing, as historically, funding has translated into downstream office leasing. The question remains, however, to what extent have hybrid working arrangements impacted this trend?

An Uptick in Investment Sales Volume



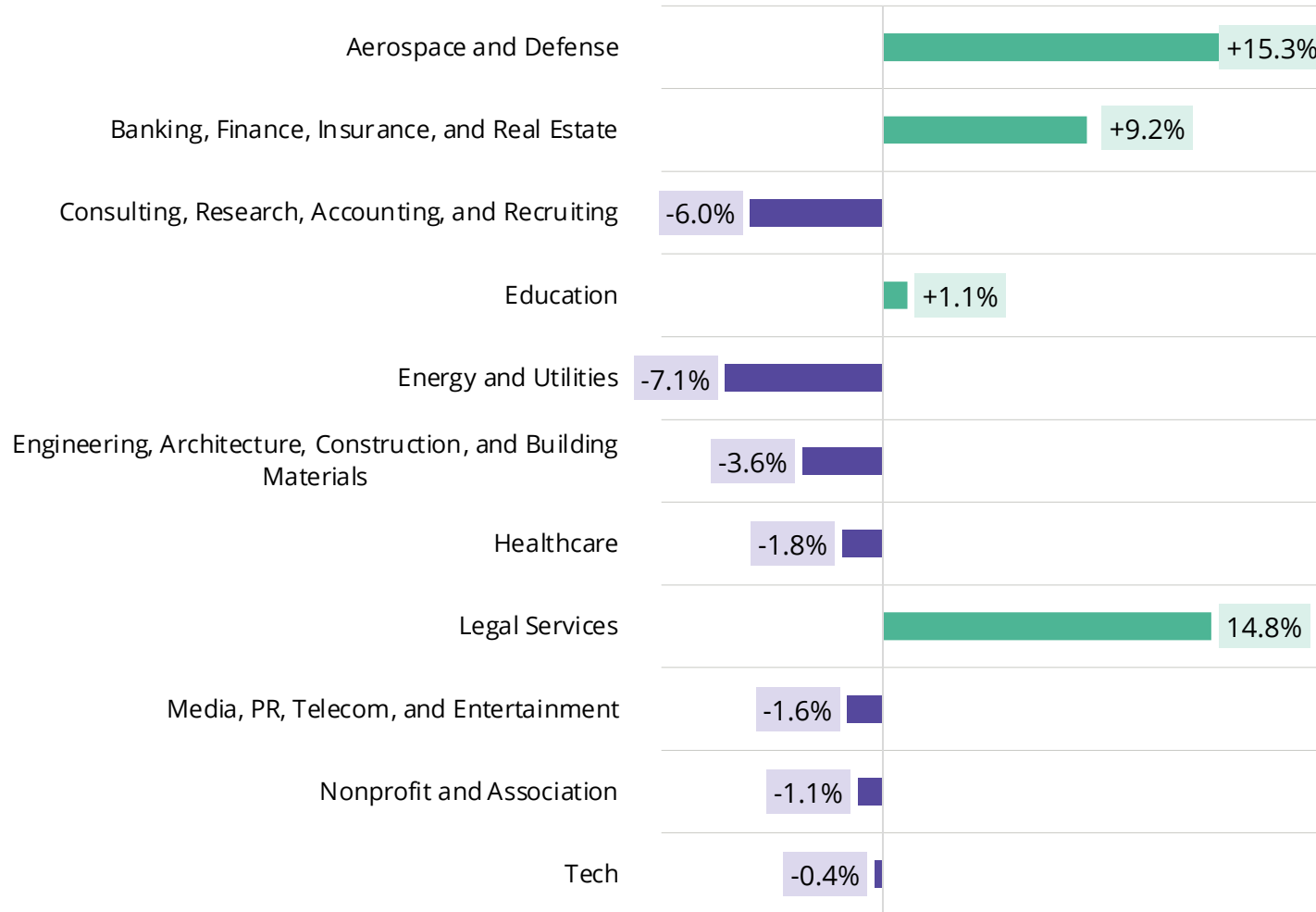
While sales volume has increased for the office sector in Northern Virginia in respect to Q1, it is still lower than what we have seen historically for this market. With office valuations decreasing due to loan maturations and a slower leasing market, office sales are slowly becoming more financially feasible to prospective investors.

Occupier trends

Let's examine more
prevailing office trends



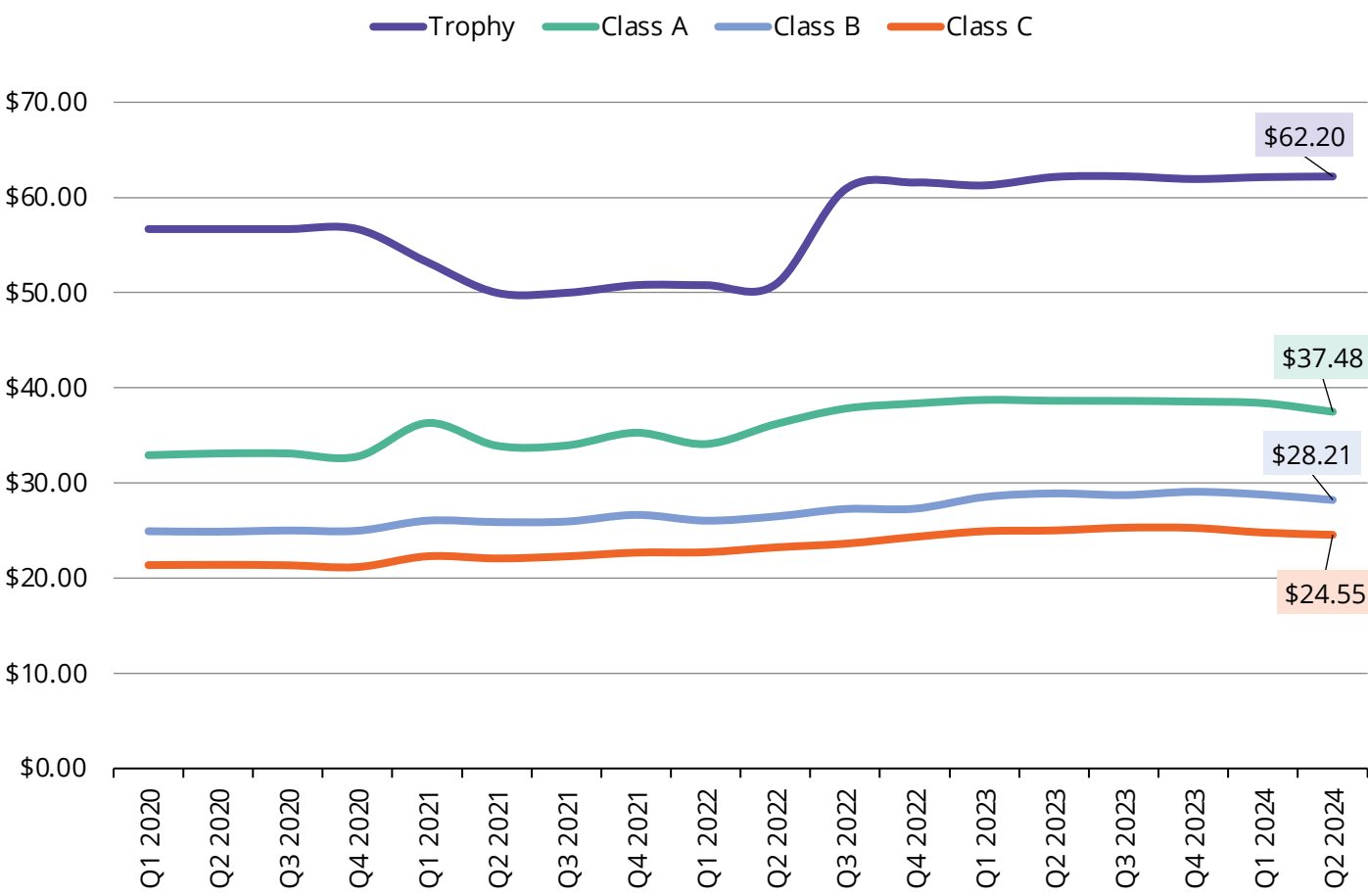
Job Growth in Northern Virginia



Overall, job postings have decreased in Northern Virginia compared to Q1.

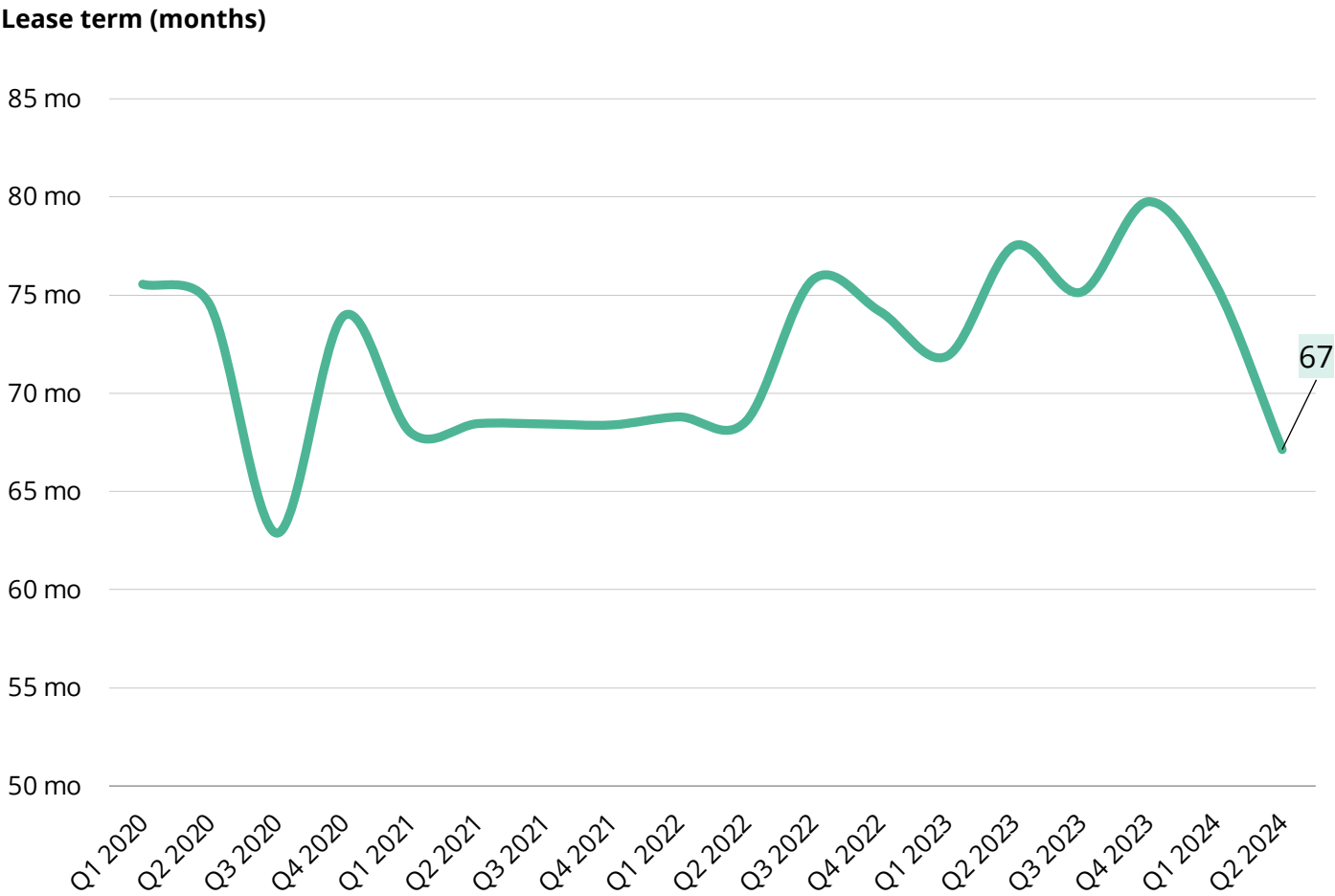
The Energy and Utilities sectors saw a significant decline in postings, while Aerospace and Defense companies experienced notable growth.

Full Service Asking Rents by Property Class



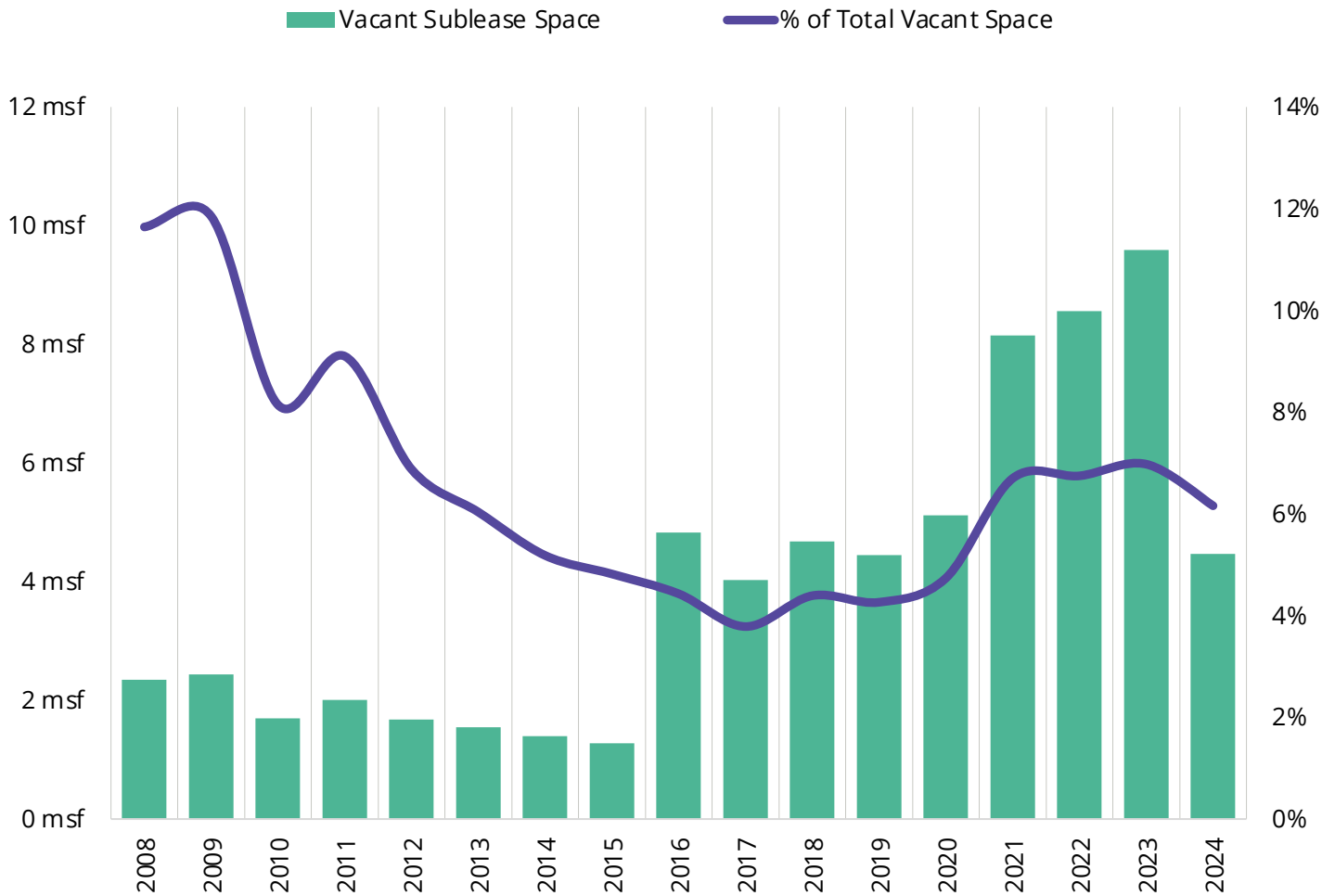
After a period of growth for Trophy rents, asking rents across the board have stagnated since Q3 2022 in the Northern Virginia office landscape. Alongside these consistent rents, rent concessions have also begun to top out.

Term Length in the Office Market



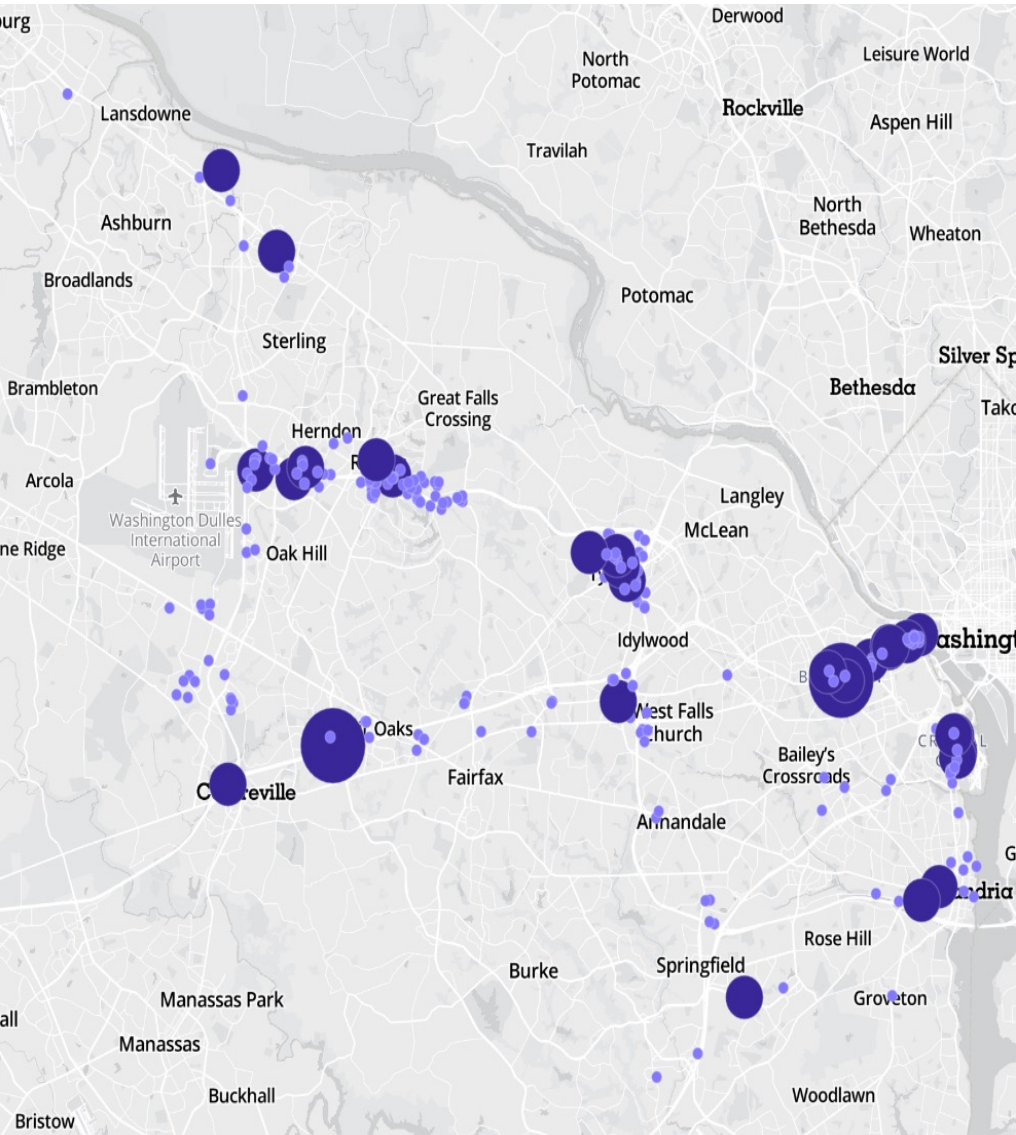
Average term length in the Northern Virginia office market has continued to drop, after a period of rising term lengths. Term lengths in Class A properties took the largest hit, declining by nearly 30% since the start of 2024.

Sublease Space

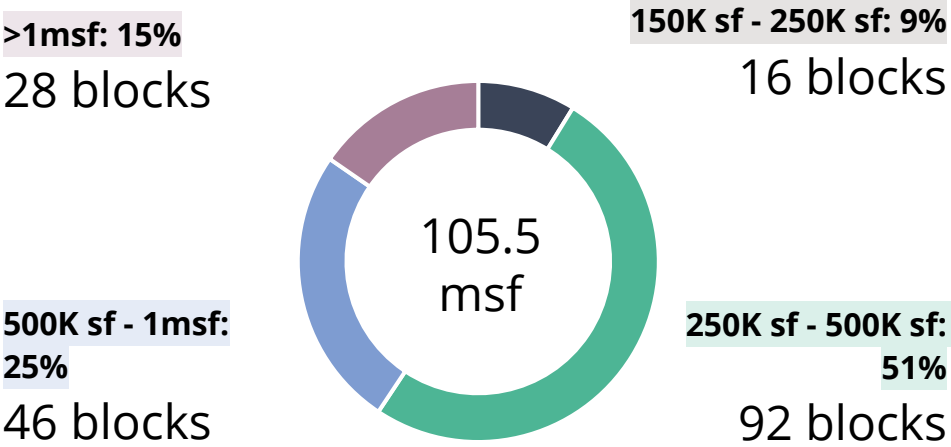


With inflation still high and less people in the office, tenants have placed portions of their space onto the sublease market. Submarkets such as Rosslyn and Herndon have seen the largest increase in vacant sublet space this quarter.

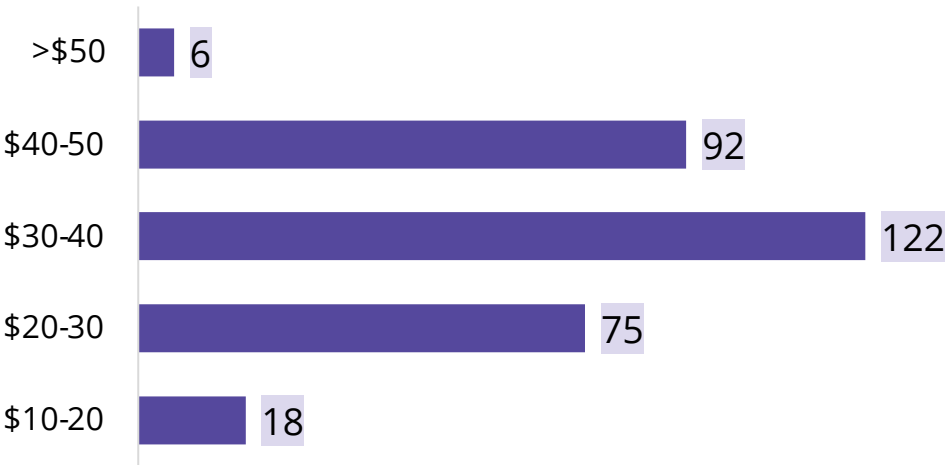
Office Large-Block Availabilities



Large-block space size ranges



Large blocks available by asking rent psf



Office Development Pipeline

5 properties

proposed, under construction

1.15 msf

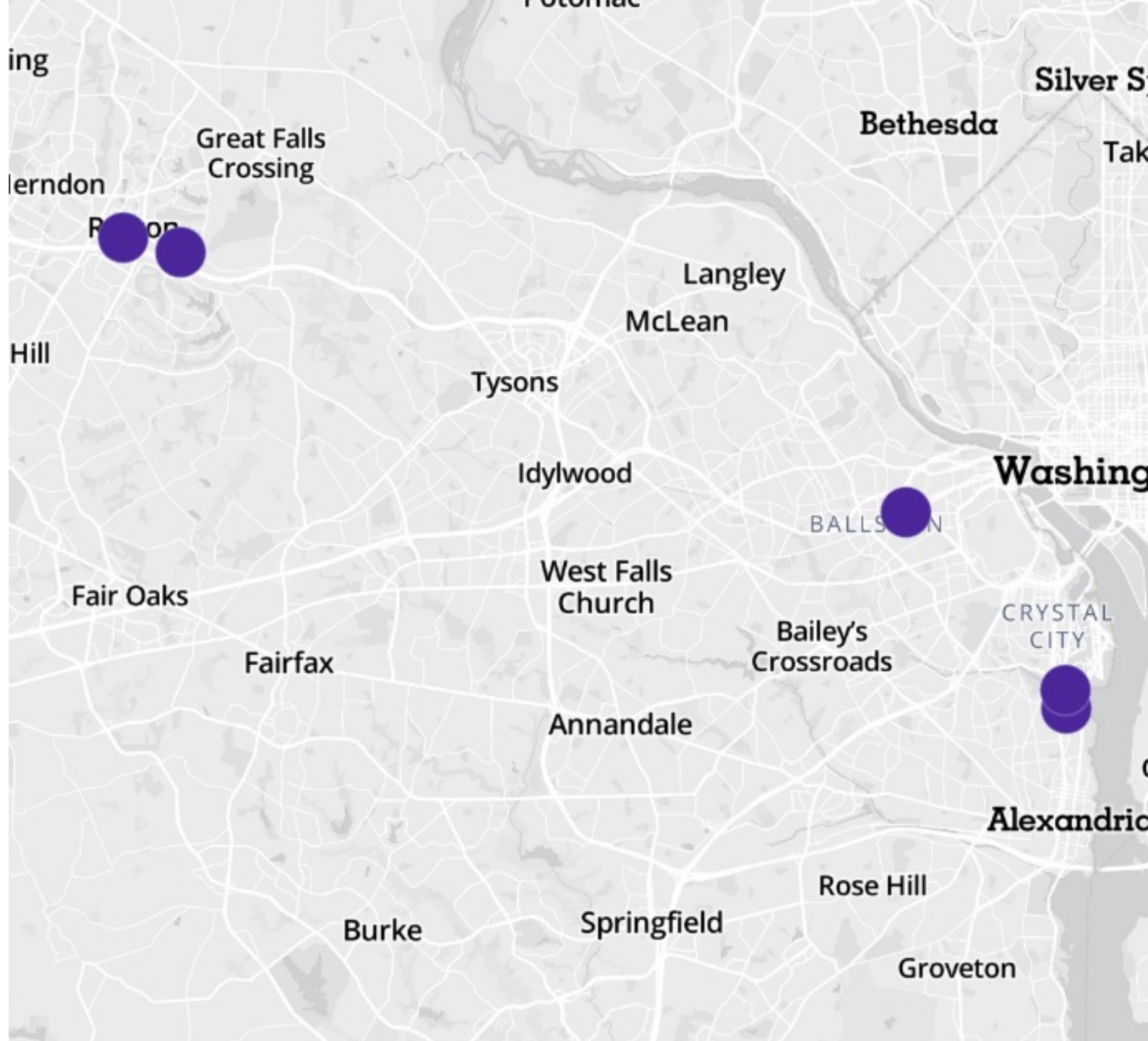
proposed, under construction

.16%

share of office inventory

1994

average delivery date of Manhattan offices

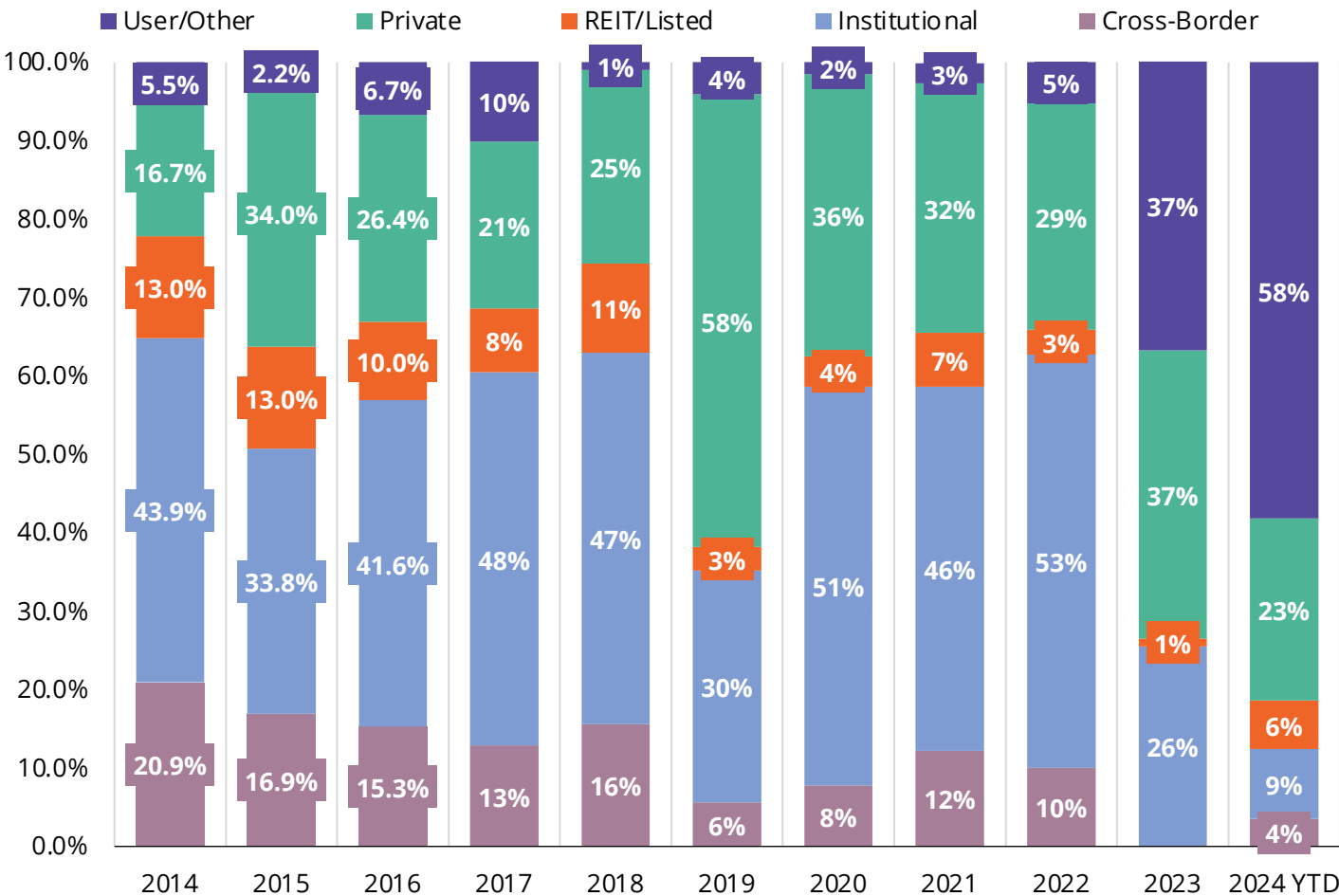


Capital Markets trends

Let's examine more
prevailing office trends

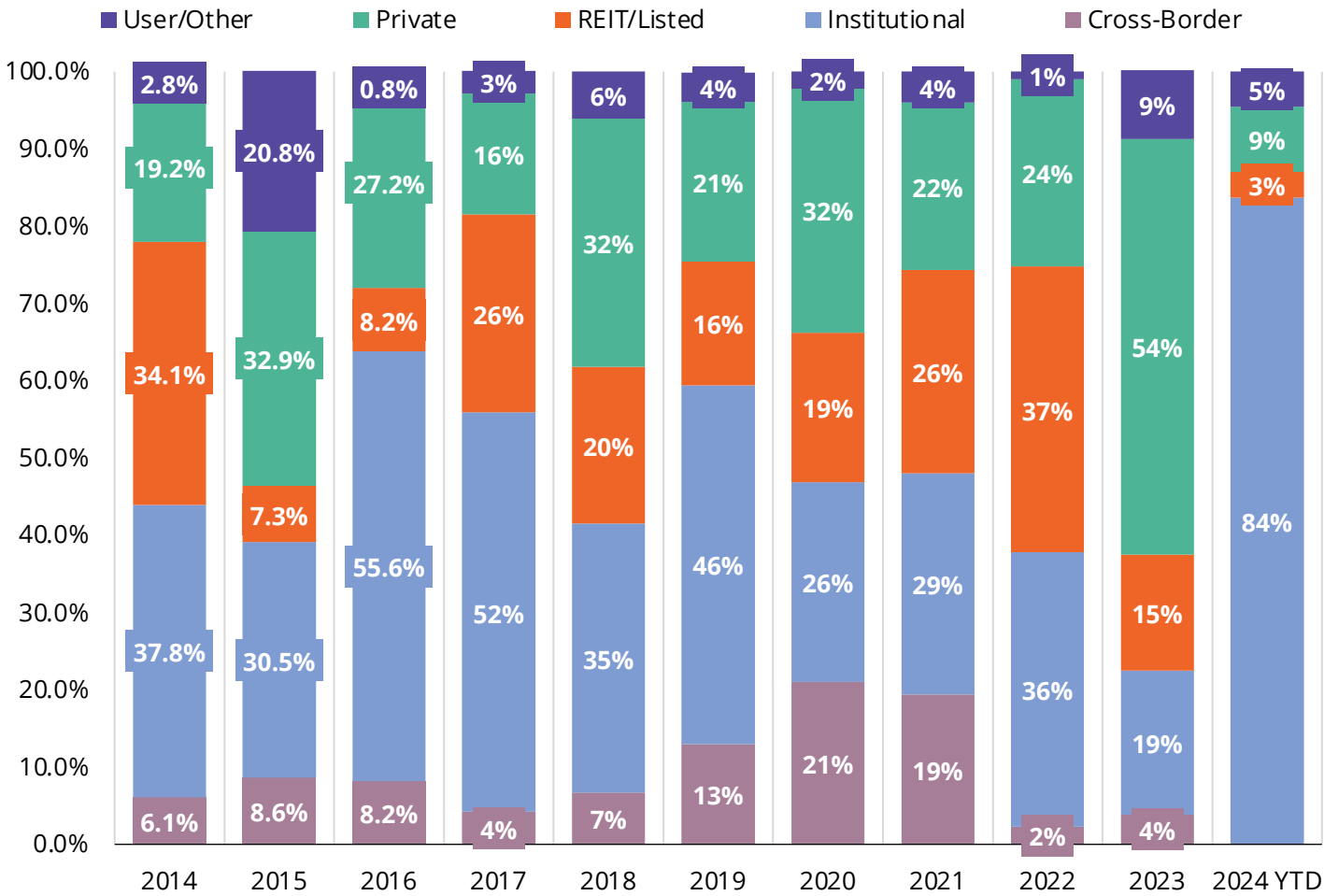


Buyer Profiles



In the first half of 2024, there was again a very high percentage of user-buyers in the Northern Virginia office market. Notably, the sale of 1201 Wilson Boulevard to CoStar is of significant importance.

Seller Profiles

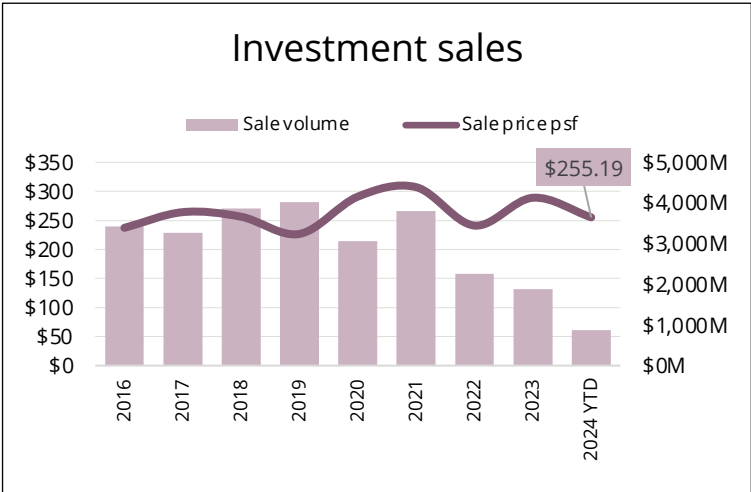
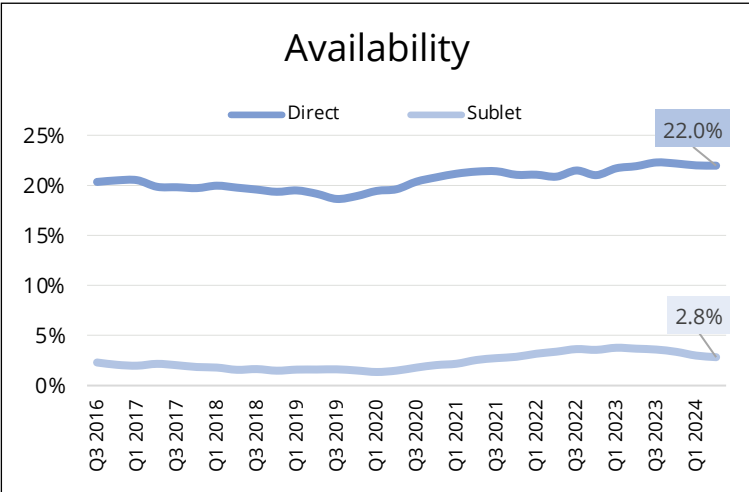
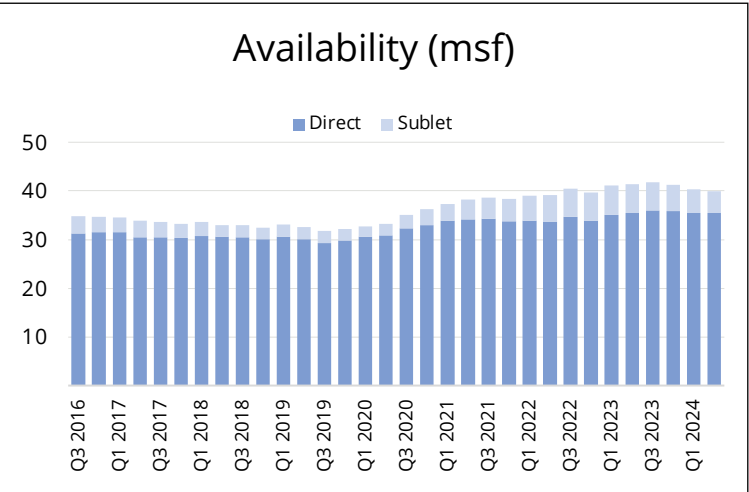
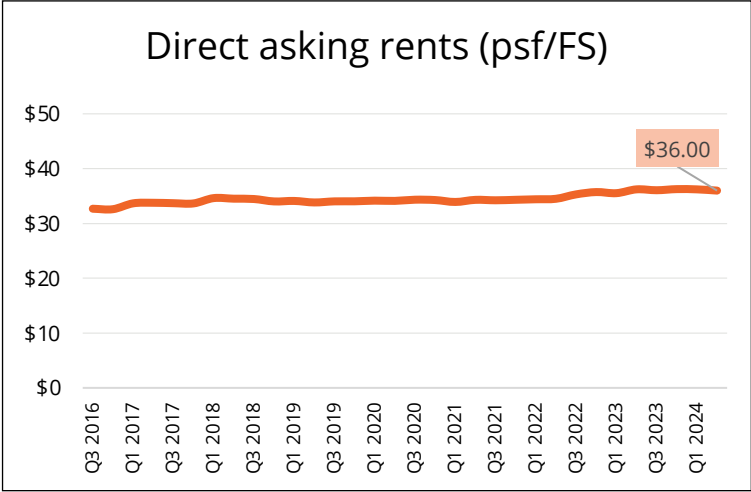
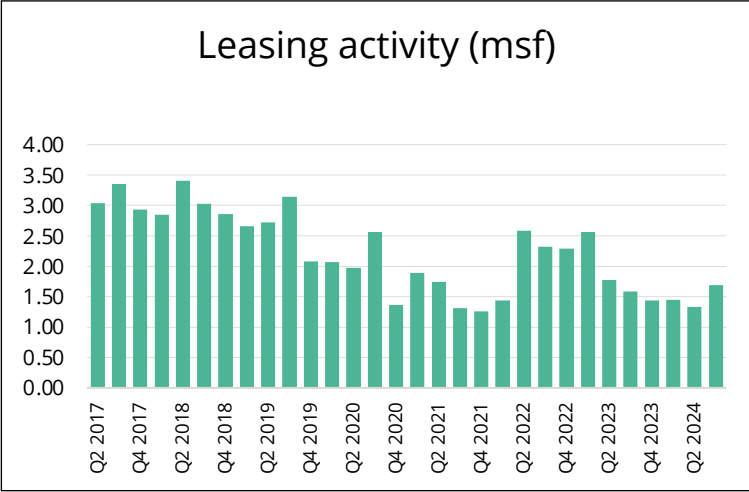
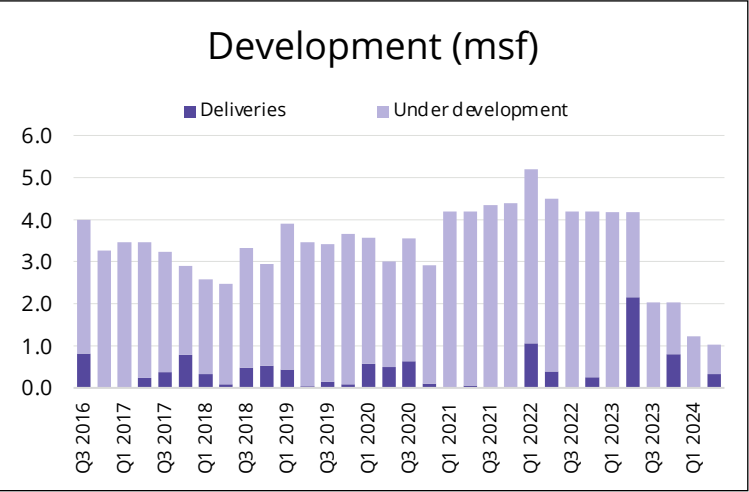


Institutional investors have accounted for most seller profiles in the first half of 2024. In this span, sellers such as PGIM and TIAA have disposed nearly \$350M of assets.

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
KBR	15020 Conference Center Dr	Route 28 South	May 2024	105,000	Renewal	Direct
United States General Services Administration	14501 George Carter Way	Route 28 South	June 2024	54,419	New	Direct
AES	4300 Wilson Blvd	Ballston	April 2024	75,722	Renewal	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Greystone	8219 Leesburg Pike	April 2024	181,540	\$10M	\$220	Golden East Advisors
550 Sunnyside Road LLC	11350 Random Hills Rd	May 2024	183,810	\$27.8M	\$151.24	Novel Office
Acts 2 Network	10521 Rosehaven St	April 2024	61,444	\$6.5M	\$105.97	Tasea Investment Company

Top projects under development

Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
3401 Fairfax Dr	Virginia Square	September 2024	360,500	0%	Edgemoor Investment Advisors
1880 Reston Row Plz	Reston	June 2025	252,110	0%	Comstock Developers
3625 Potomac Ave	Potomac Yard	October 2024	300,000	100%	JBG Smith

Northern Virginia Office Market Stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Annandale	1,103,722			17.9%	.6%	18.5%	39,898	3.61%	\$ 23.71
Ballston	8,145,252	200,576		25.8%	3.5%	29.2%	50,619	0.62%	\$ 41.25
Carlyle	5,373,983			31.5%	1.2%	32.8%	(140,737)	(2.62%)	\$ 37.6
Centreville	607,395			21.9%	7.5%	29.4%	25,557	4.21%	\$ 34.47
Clarendon/Courthouse	5,420,093			28.2%	5.8%	34.4%	(55,025)	(1.02%)	\$ 43.15
Columbia Pike	472,337			12.0%	0.0%	0.0%			
Crystal City	10,727,771			25.6%	2.6%	28.2%	(216,354)	(2.02%)	\$ 39.02
Del Ray	178,301			23.1%	0.0%	0.0%			
Eisenhower Ave Corridor	479,430			36.4%	5.3%	41.3%	(805)	(0.17%)	\$ 27.26
Fairfax Center	6,291,598			28.4%	3.2%	31.6%	(25,415)	(0.40%)	\$ 29.23
Fairfax City	2,658,270			12.2%	0.2%	12.4%	(7,776)	(0.29%)	\$ 26.29
Falls Church	943,954			18.1%	1.0%	19.1%	15,225	1.61%	\$ 26.69
Haymarket	1,377,067			5.7%	0.1%	5.9%	9,007	0.65%	\$ 25.67
Market total	160,463,672	528,956	702,606	19.2%	2.0%	21.1%	(877,431)	-2.0%	\$32.62

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	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Herndon	11,502,939			28.9%	3.1%	32.0%	(35,049)	(0.30%)	\$ 34.15
Huntington	400,409			36.9%	.9%	37.8%	5,995	1.50%	\$ 25.09
I-395 Corridor	3,935,267			13.5%	.7%	14.2%	14,670	0.37%	\$ 33.07
Leesburg/West Loudoun	1,190,256			4.4%	3.0%	7.4%	(11,930)	(1.00%)	\$ 29.36
Manassas	908,907			6.8%	.0%	6.8%	(21,646)	(2.38%)	\$ 28.86
McLean	576,657			14.8%	1.1%	15.9%	(24,274)	(4.21%)	\$ 34.92
Merrifield	6,612,952			18.0%	2.5%	19.7%	(96,878)	(1.46%)	\$ 32.34
North Arlington	93,584			.0%	.0%	.0%	0	0.00%	
Oakton	1,461,615			15.9%	.6%	16.5%	36,760	2.52%	\$ 21.79
Old Town	5,419,532			19.3%	3.3%	22.6%	(43,779)	(0.81%)	\$ 37.17
Pentagon City	3,082,810			1.7%	.0%	1.7%	0	0.00%	
Market total	160,463,672	528,956	702,606	19.2%	2.0%	21.1%	(877,431)	(2.03%)	\$32.62

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Potomac Yard	104,453			40.6%	.%	40.6%	0	0.00%	\$ 47.
Reston	19,350,191	328,380	342,106	24.6%	3.4%	27.9%	71,535	0.37%	\$ 36.47
Rosslyn	9,260,633			20.8%	6.1%	26.9%	(286,533)	(3.09%)	\$ 41.4
Route 28 North	6,498,967			10.2%	1.3%	11.4%	37,931	0.58%	\$ 26.93
Route 28 South	11,662,554			16.3%	2.2%	18.3%	152,976	1.31%	\$ 28.15
Route 7 Corridor	1,955,004			16.3%	.8%	17.%	20,990	1.07%	\$ 31.61
Springfield	4,925,252			22.6%	2.3%	22.9%	4,922	0.10%	\$ 32.85
Tysons	24,922,167			24.3%	3.2%	27.5%	(405,328)	(1.63%)	\$ 38.95
Vienna	922,670			52.%	.9%	52.9%	(5,266)	(0.57%)	\$ 25.
Virginia Square	932,198		360,500	26.7%	3.%	29.7%	10,171	1.09%	\$ 43.36
Woodbridge	965,482			6.3%	.2%	6.5%	3,108	0.32%	\$ 28.3
Market total	160,463,672	528,956	702,606	19.2%	2.0%	21.1%	(877,431)	(2.03%)	\$32.62

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Trophy	5,027,408	200,576		16.6%	9.0%	25.6%	(125,470)	(2.5%)	\$63.96
Class A	43,067,135	328,380	702,606	23.0%	3.5%	26.1%	(226,119)	(0.5%)	\$40.54
Class B	89,508,076			22.5%	2.7%	25.2%	(539,263)	(0.6%)	\$35.05
Class C	22,861,053			19.7%	0.8%	20.5%	13,421	0.1%	\$28.65
Market total	160,463,672	528,956	702,606	22.1%	2.8%	24.8%	(877,431)	(0.5%)	\$36.00



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

For more market insights and
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