

1Q25

Northern Virginia Office Market Overview



NEWMARK

Market Observations



- Although the metro’s unemployment rate remained flat quarter-over-quarter, the region’s labor market remains tight, with unemployment 100 basis points below the national average. Regional nonfarm job growth remains positive, with a 1.1% annual increase as of February.
- Education & Health propped up job growth in the region over the past 12 months with a 3.7% increase, leading to total nonfarm employment growth of 1.1%. The Government and Financial Activities sectors also experienced 12-month growth of 1.6% and 0.9%, respectively, while the Information and Business & Professional sectors saw 12-month declines of 0.3% and 1.0%, respectively.
- While some office-using sectors experienced a decline in employment over the past year, the overall number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.0% higher than five years ago—just before the pandemic—and 7.4% higher than the pandemic-induced employment trough in June of 2020.



- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. The 12-month average PSF of \$198 is down from the five-year peak of \$273 PSF in 3Q21. The total transaction volume in the first quarter was \$1.2 billion, down from the recent peak of \$4.6 billion in 1Q22. However, owner-user sales and conversion opportunities are propping up demand in the region’s capital markets.
- The most notable sale of the quarter was 1005 N Glebe Road in Arlington. The 142,000-SF building traded from Brookfield Asset Management to Remedy Medical Properties for \$47 million or \$331 PSF. It last sold in July 2021 for \$50.2 million.



Leasing Market Fundamentals

- Net absorption for the region totaled 65,833 square feet during the first quarter of 2025, leading to a 10-basis-point decline in vacancy over the quarter. Overall vacancy decreased to 22.3% but is up 120 basis points from a year ago. However, overall availability is down 40 basis points from a year ago, to register 25.3% as of the first quarter.
- Major first-quarter leasing transactions were spread across Northern Virginia submarkets and the largest transactions were new direct leases. The largest was FDIC’s lease of 171,000 square feet at 3701 N Fairfax Drive in Virginia Square.
- Rents in Northern Virginia averaged \$35.57 PSF as of the first quarter of 2025, an increase of 1.7% over the past 12 months.
- Northern Virginia didn’t experience any deliveries in the first quarter of 2025. The market’s development pipeline remains historically low, with only three properties totaling 312,000 SF under construction as of 1Q25.



Outlook

- Since 2020, 2.6 MSF of office space in Northern Virginia has been converted to other uses, with an additional 12.1 MSF of office space proposed to be converted. A continuation of this trend—coupled with slowdown in office deliveries and lack of new speculative office construction— will be advantageous in helping to balance supply with waning demand.
- The region faces major headwinds from the new administration, especially related to tariffs and the real estate and staffing cuts driven by DOGE. Several lease transactions and major development projects have been put on hold amid the uncertainty. While it continues to be an evolving situation, the net effect will likely be a continued increase in space availability and further limits on demand.
- The most recent unemployment numbers do not yet show the impact of government staffing changes driven by DOGE. With a significant number of those jobs located in the metro area, it is likely the region will see a net decline in employment by the end of 2025.

1. Economy
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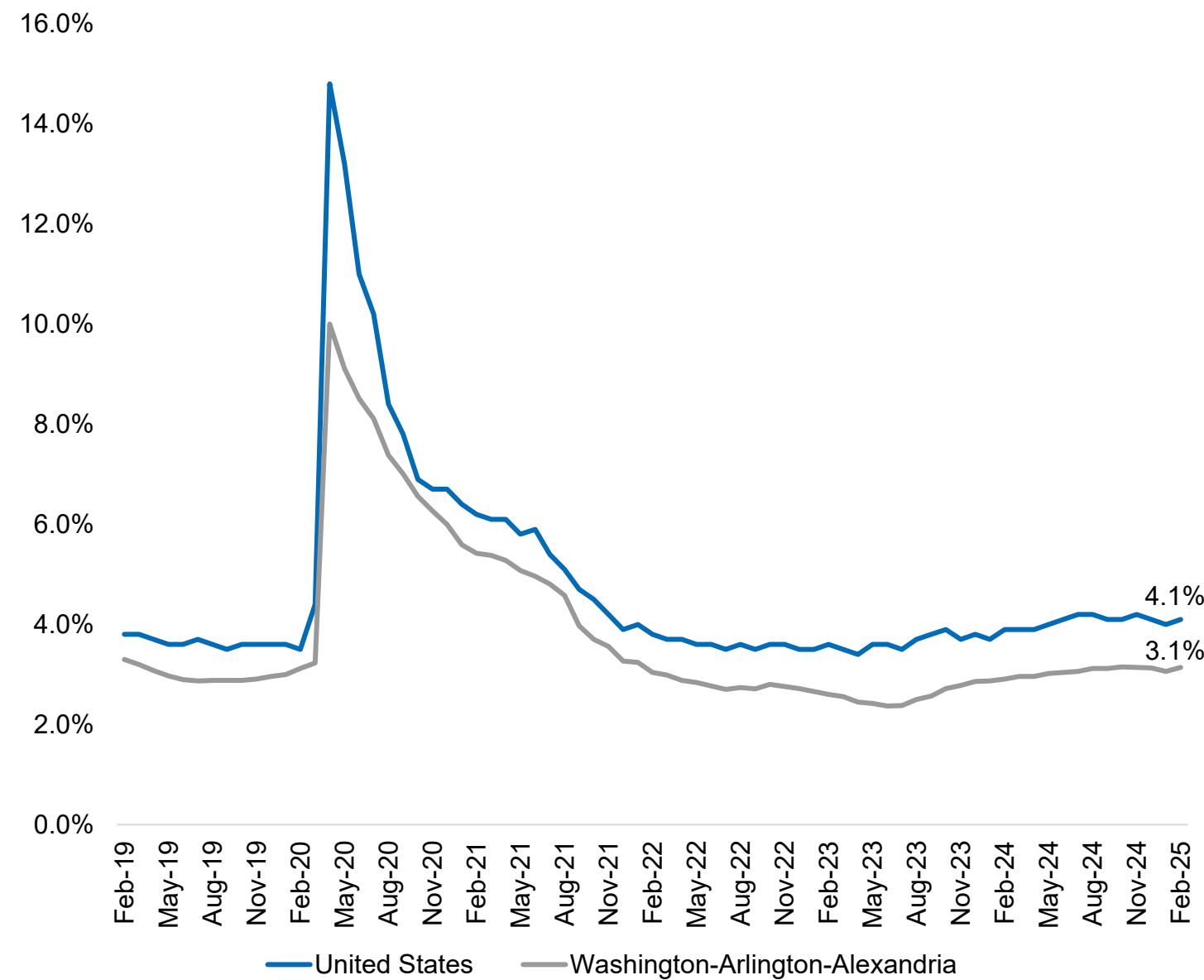
Economy



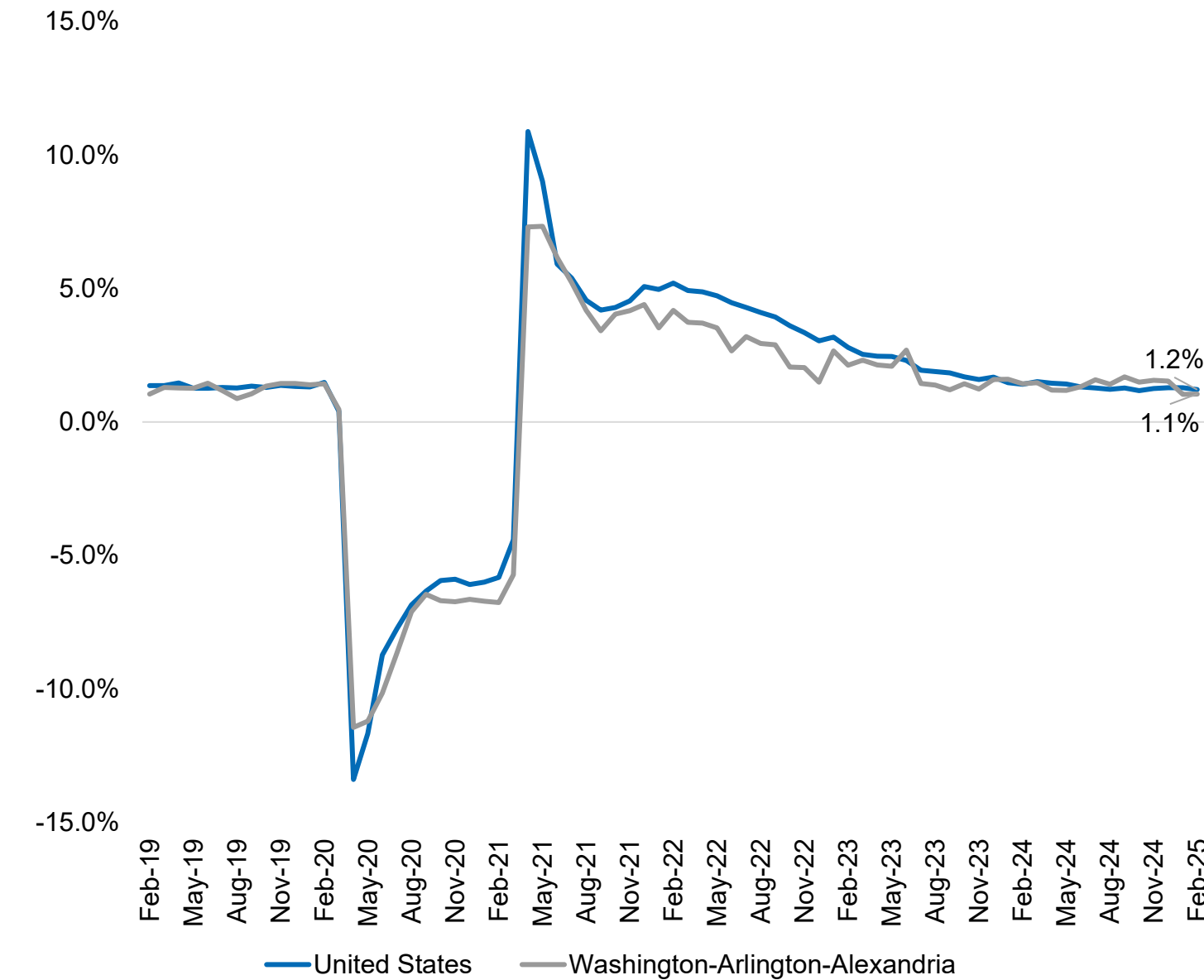
Metro Unemployment Rate Remains Tighter Than National Average

Although the metro’s unemployment rate remained flat quarter-over-quarter, the region’s labor market remains tight, with unemployment 100 basis points below the national average. Regional nonfarm job growth remains positive, with a 1.1% 12-month increase as of February.

Unemployment Rate, Seasonally Adjusted



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

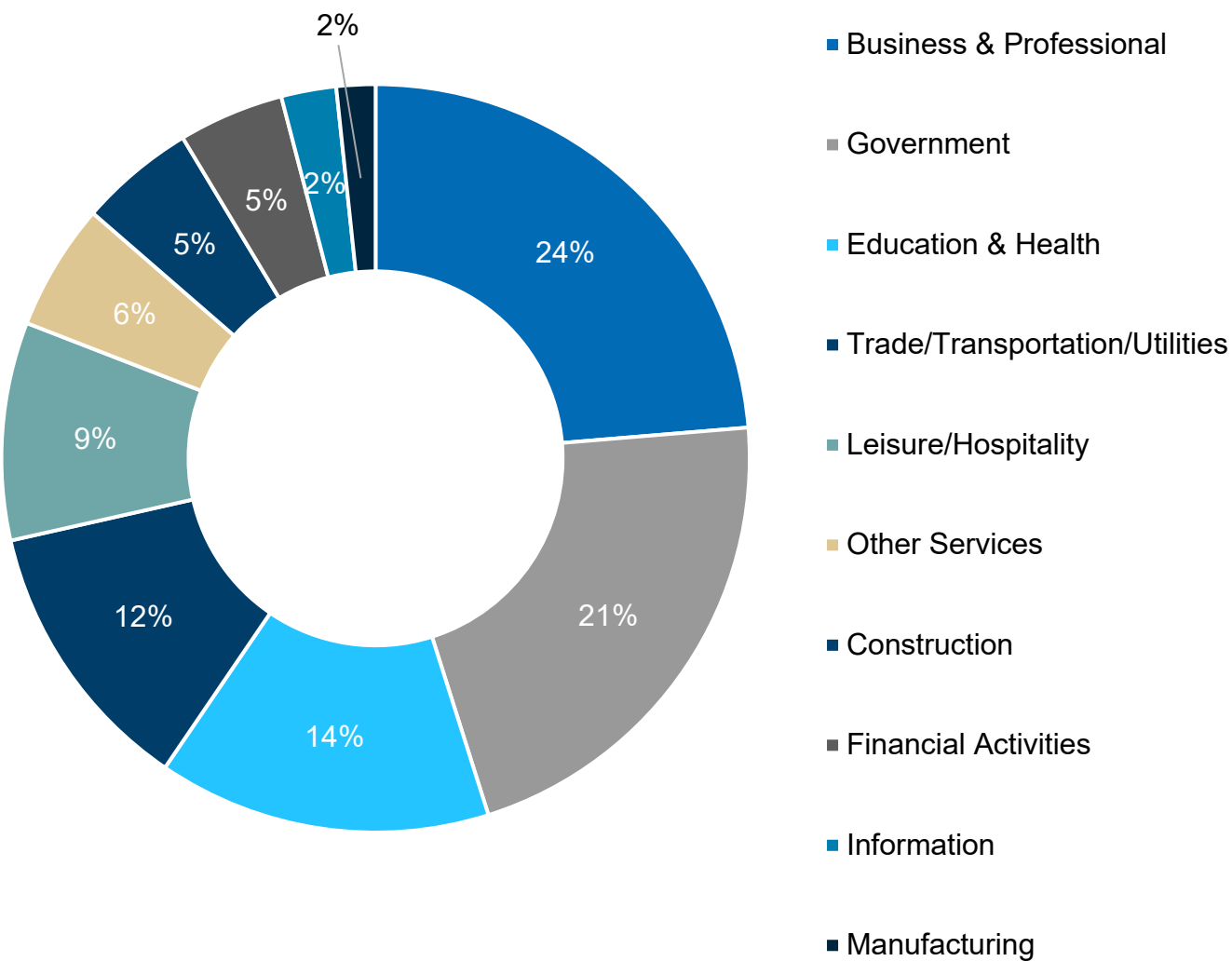


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

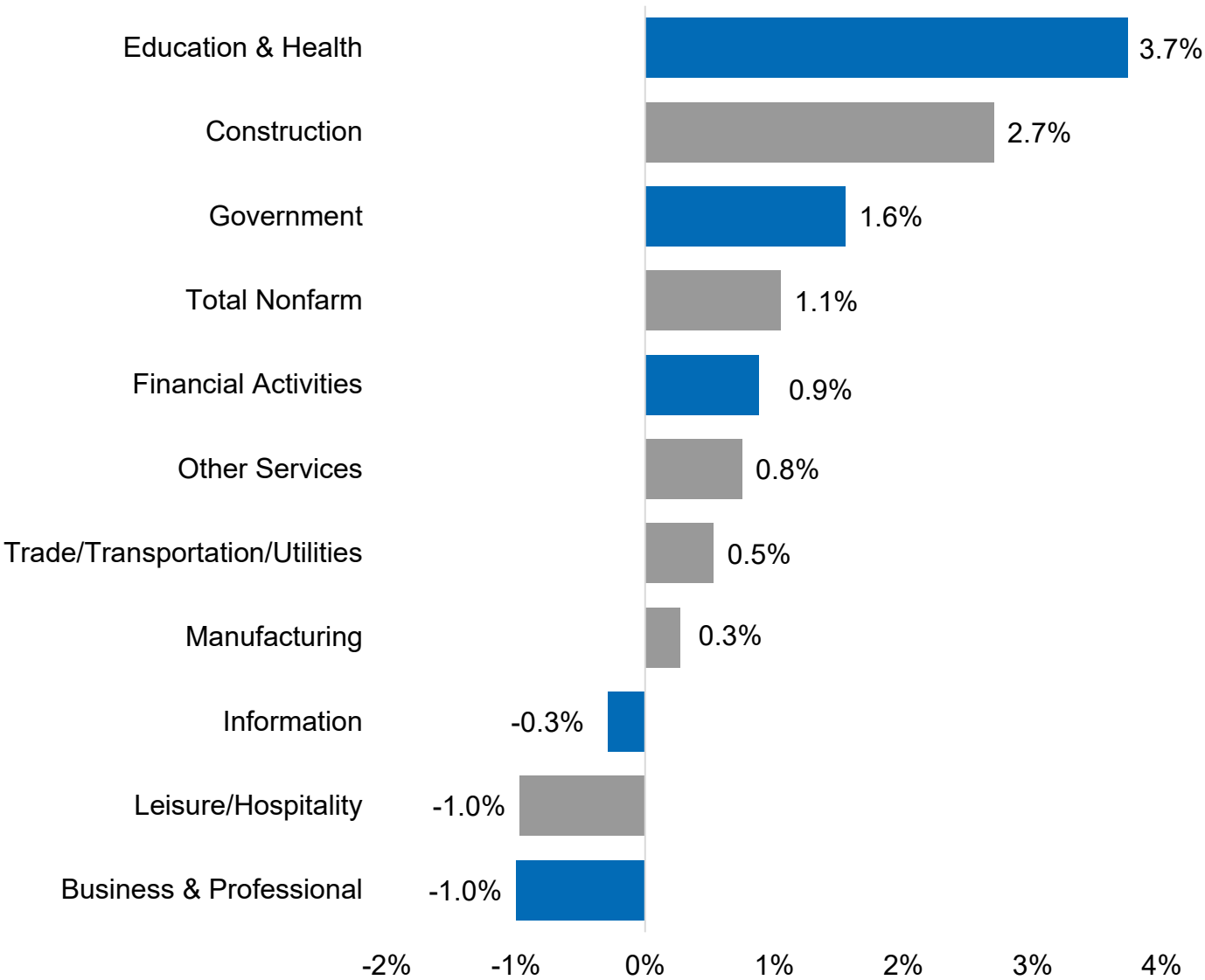
Job Growth Driven by Education & Health

Education & Health propped up job growth in the region with a 3.7% 12-month increase, leading to total nonfarm employment growth of 1.1%. The Government and Financial Activities sectors also experienced 12-month growth of 1.6% and 0.9%, respectively, while the Information and Business & Professional sectors saw 12-month declines of 0.3% and 1.0%, respectively.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

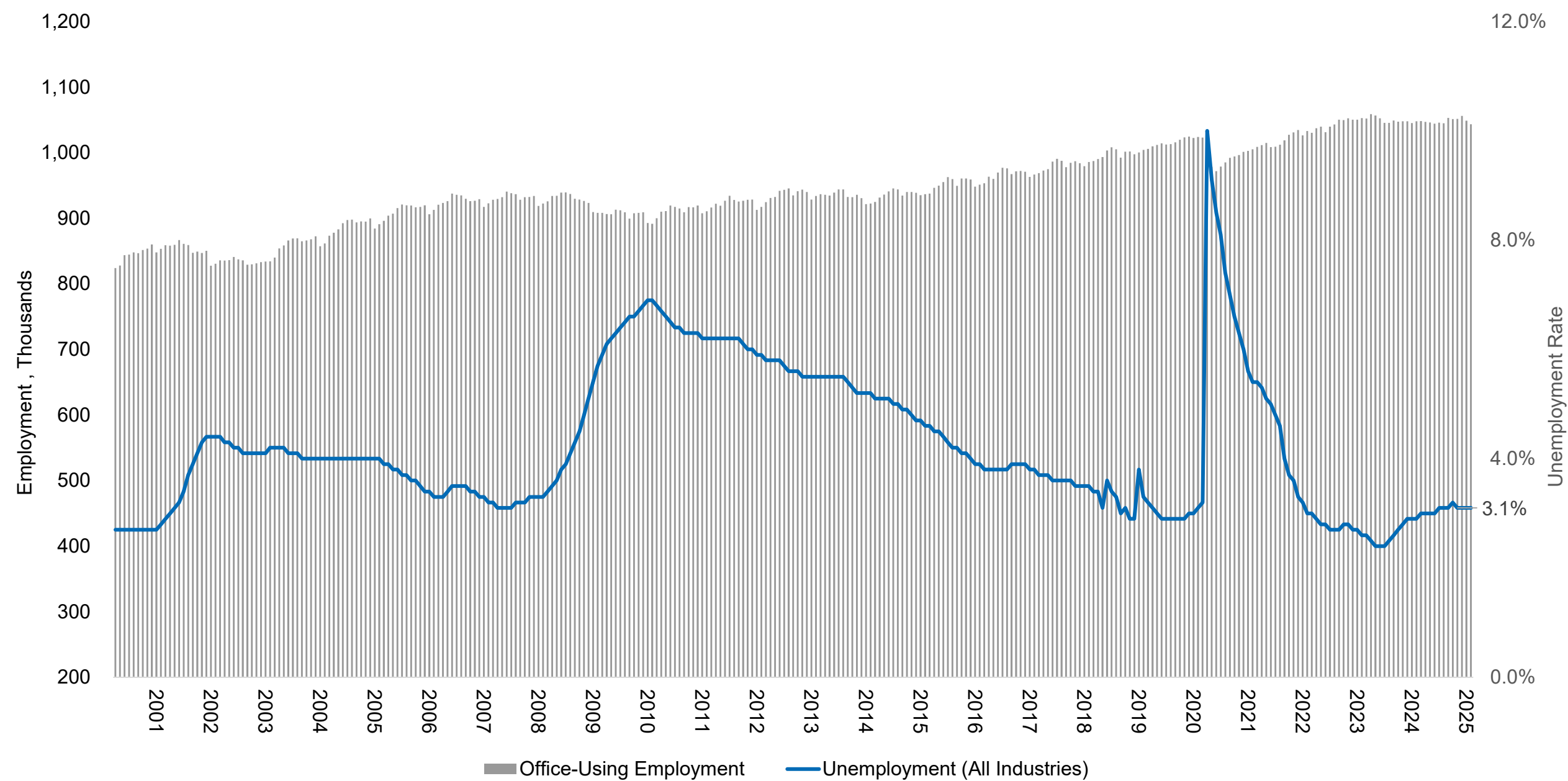


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.0% higher than five years ago—just before the pandemic—and 7.4% higher than the pandemic-induced employment trough in June of 2020.

Office-Using Employment* and Unemployment Across All Industries



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

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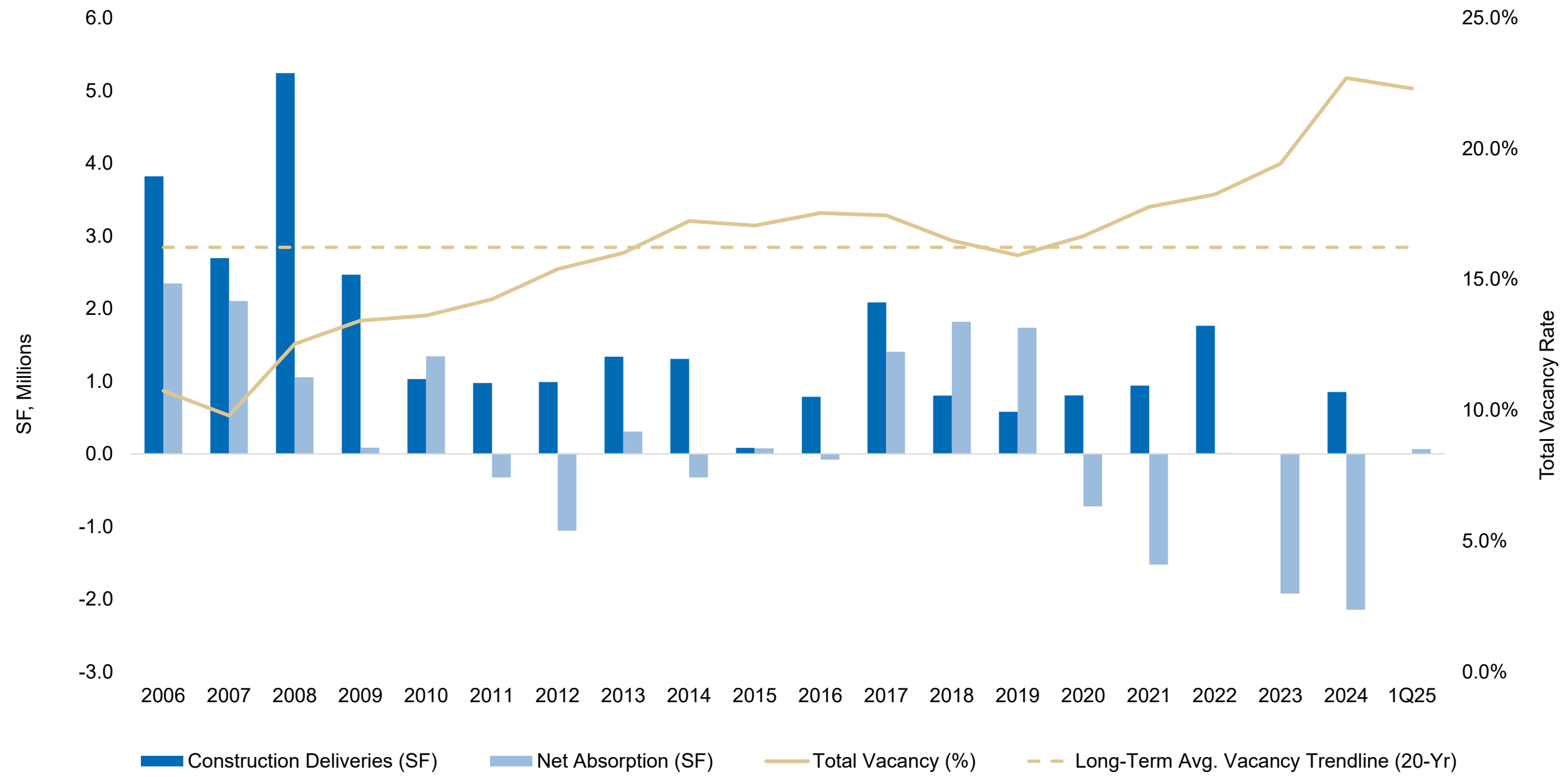
Leasing Market Fundamentals



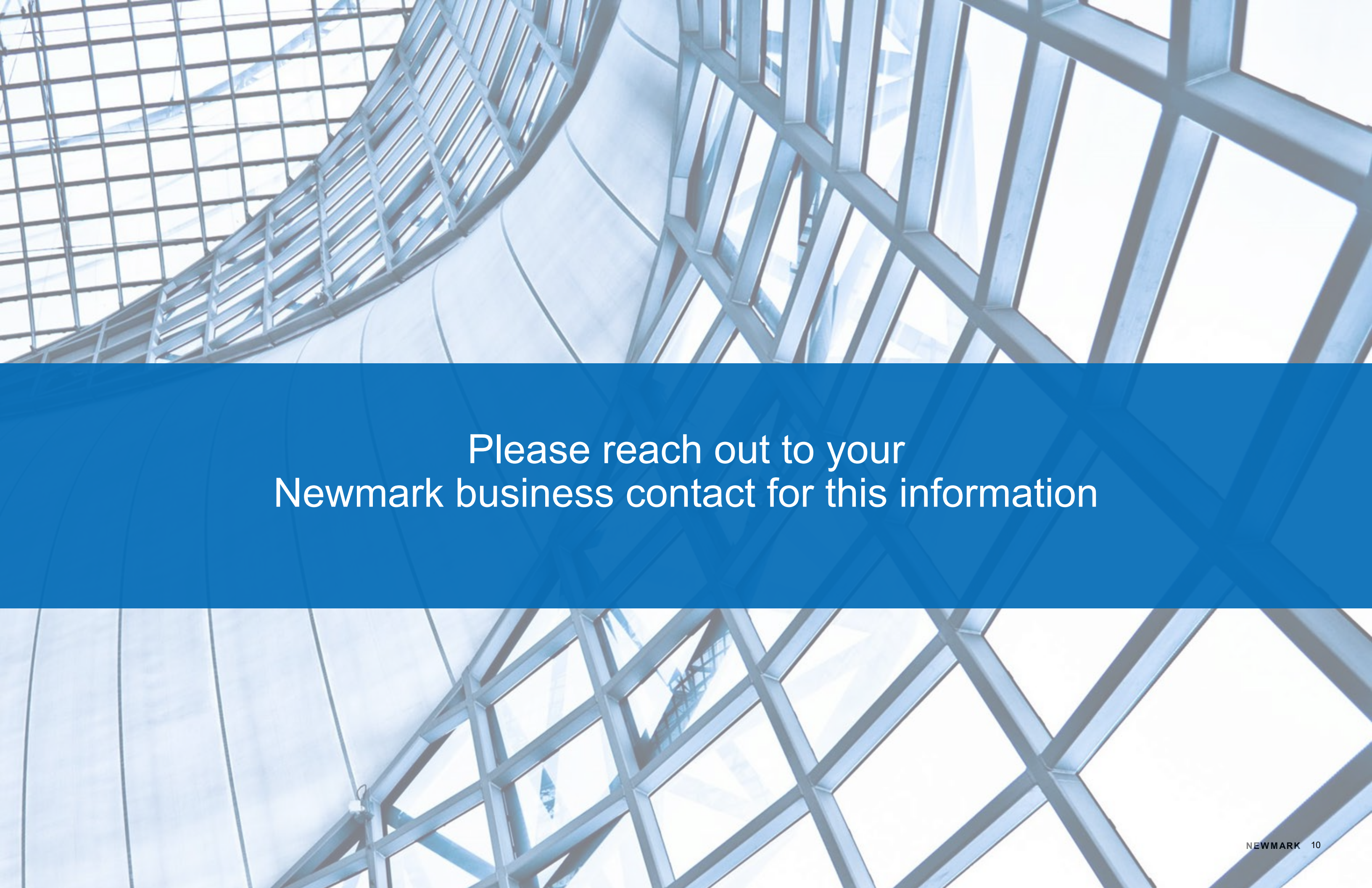
Market Sees Positive Absorption and Declining Vacancy with a Slowdown in Development

With roughly 66,000 square feet of positive absorption during the first quarter of 2025, Northern Virginia’s vacancy rate decreased by 10 basis points to end the quarter at 22.3%. While modest, this marks the second quarter of positive absorption after significant negative absorption during the first three quarters of 2024. With no deliveries during the quarter, the market has also experienced a slowdown in development after averaging 1.6 million square feet of annual deliveries over the past 20 years. On a positive note, this slowdown in office deliveries and lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy



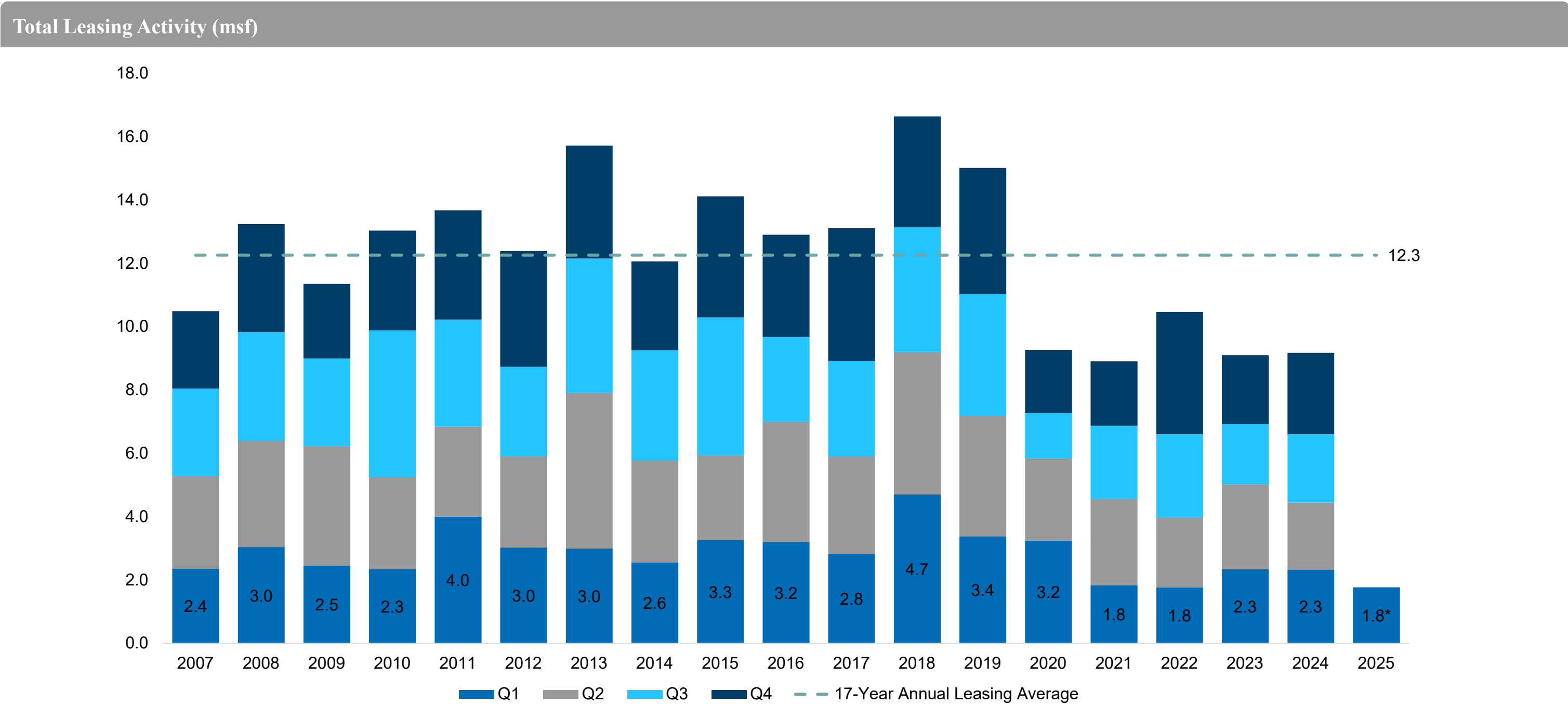
Source: Newmark Research, CoStar



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Total Leasing Volume Remains on Par with New Normal

Leasing activity during the first quarter of 2025 totaled 1.8 million square feet, close to the first-quarter leasing activity over the past four years. Throughout 2024, the market saw 9.2 MSF of leasing activity, on par with the post-2020 five-year average of 9.2 MSF, but well below the long-term average of 12.3 MSF.

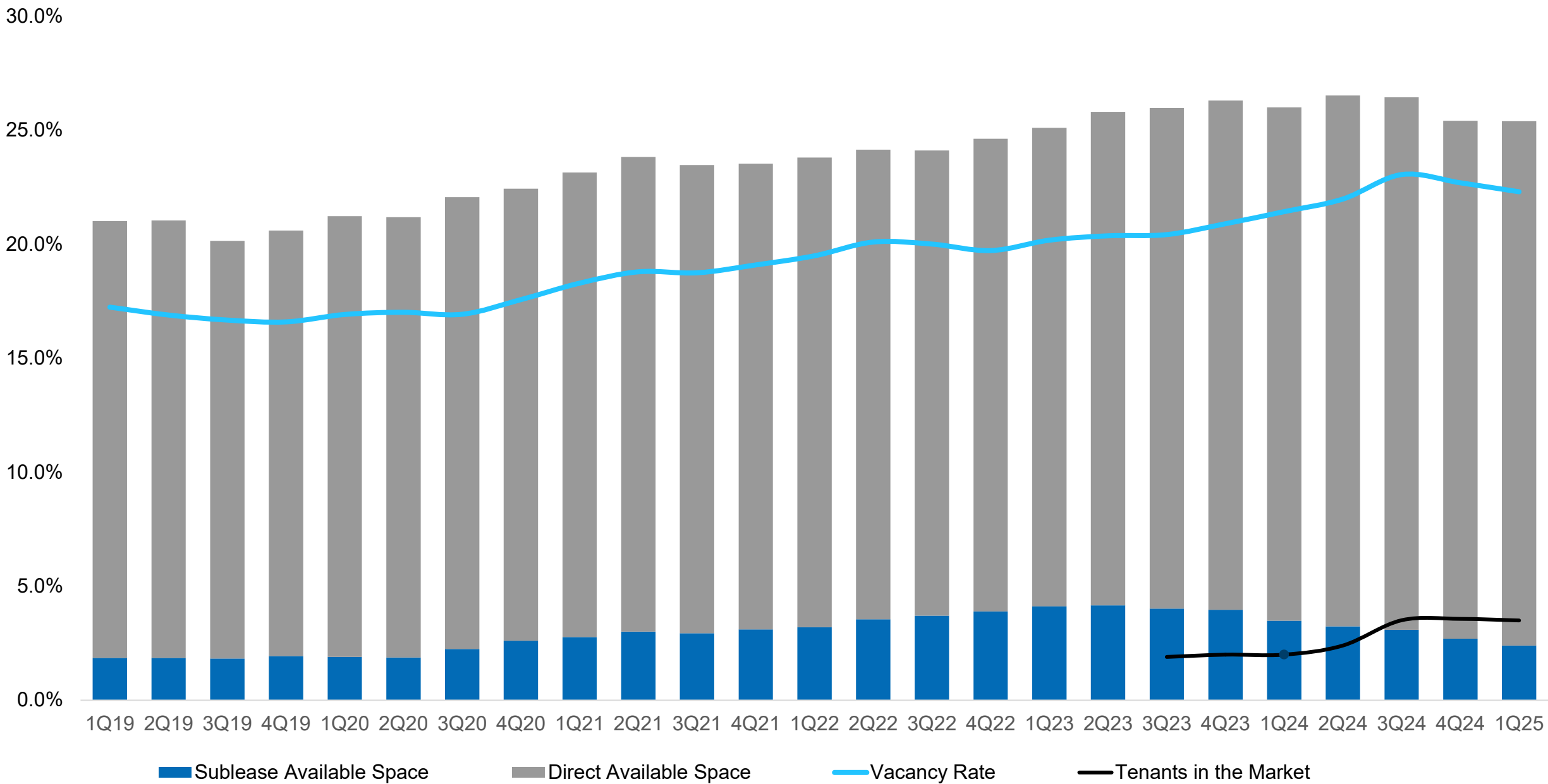


Source: Newmark Research, CoStar
*Year-to date data is subject to change from CoStar data and is often lagging

Vacancy Declines as Sublease Availability Decreases Towards Pre-Pandemic Levels

The vacancy rate ended 1Q25 at 22.3%, down 10 bps from last quarter and up 120 bps from a year ago. Direct space availability for 1Q25 registered 23.0%, up 60 bps from the fourth quarter and 80 bps over the year. The sublease availability rate for 1Q25 was 2.4%, down 30 bps from the prior quarter, and down 110 bps from last year. Sublease availability appears to have peaked for this cycle, having steadily declined from 4.2% in the second quarter of 2023. The sublease market remains tighter than most other markets as move-in ready space is in high demand.

Available Space and Tenant Demand as Percent of Overall Market

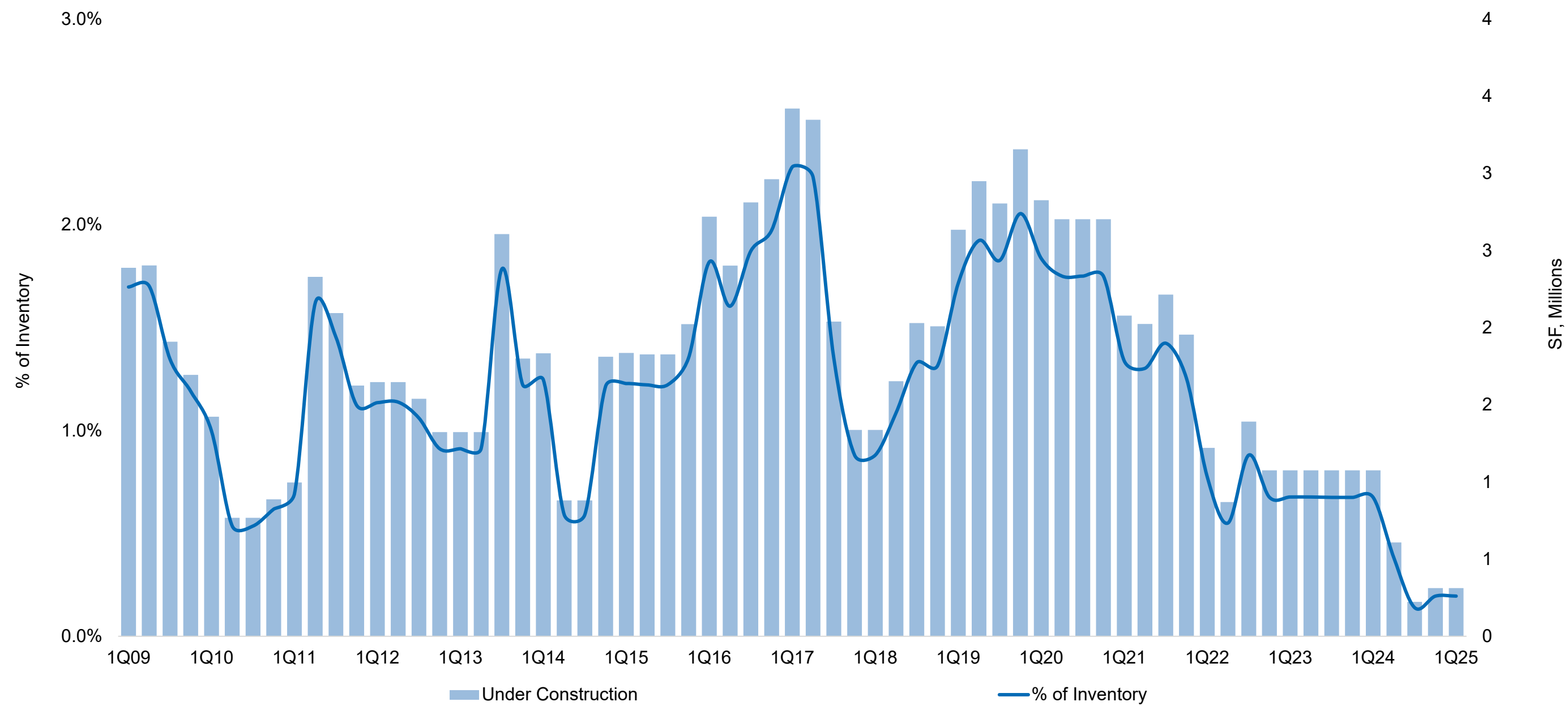


Source: Newmark Research, CoStar

Limited New Supply Will Put Upward Pressure on Rents and Decrease Vacancy

Northern Virginia didn't experience any deliveries in the first quarter of 2025. The market's development pipeline remains historically low, with only three properties totaling 312,000 SF under construction as of 1Q25. A lack of new supply will continue to help ease vacancy.

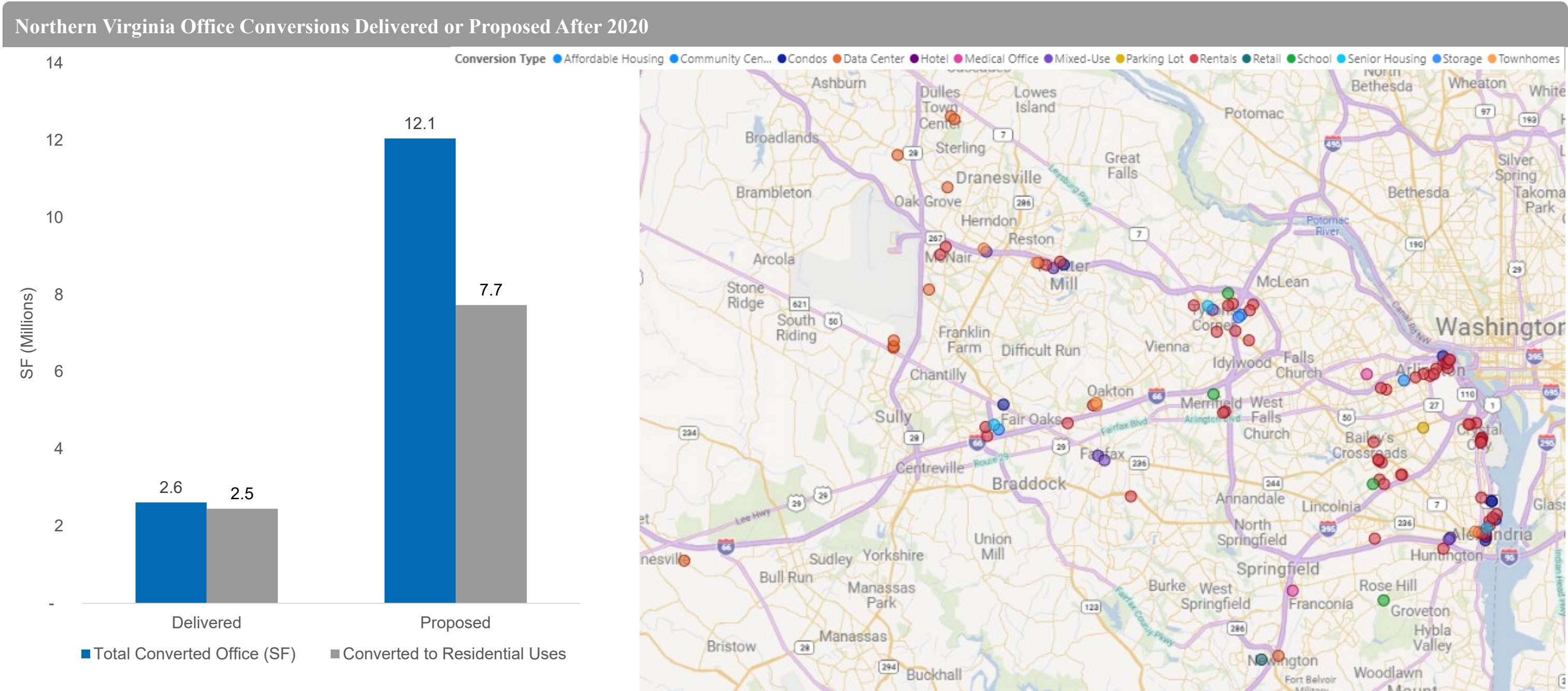
Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Office Conversions Have Begun Delivering in Northern VA, With More on the Way

Since 2020, 2.6 MSF of office space in Northern Virginia has been converted to other uses, with an additional 12.1 MSF of office space proposed to be converted. Approximately 2.5 MSF of the 2.6 MSF of office space that has been removed in Northern Virginia was converted to residential uses. Looking forward, approximately 12.1 MSF of office space is proposed for conversion. In Western Fairfax and Eastern Loudoun counties, there is a growing trend of office-to-data-center conversions, with upwards of ten multistory buildings in that area slated for conversion to data center use.

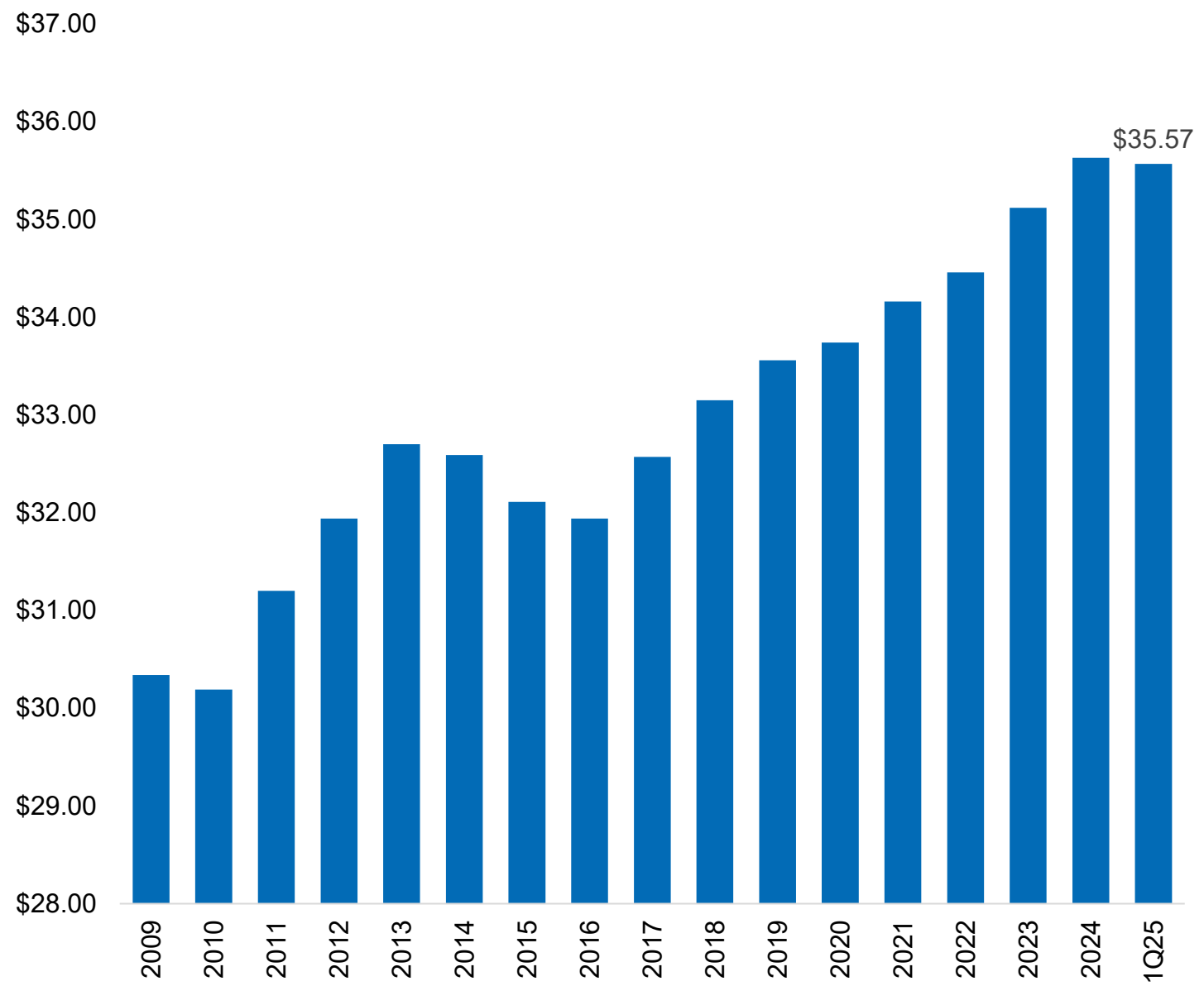


Source: Newmark Research.

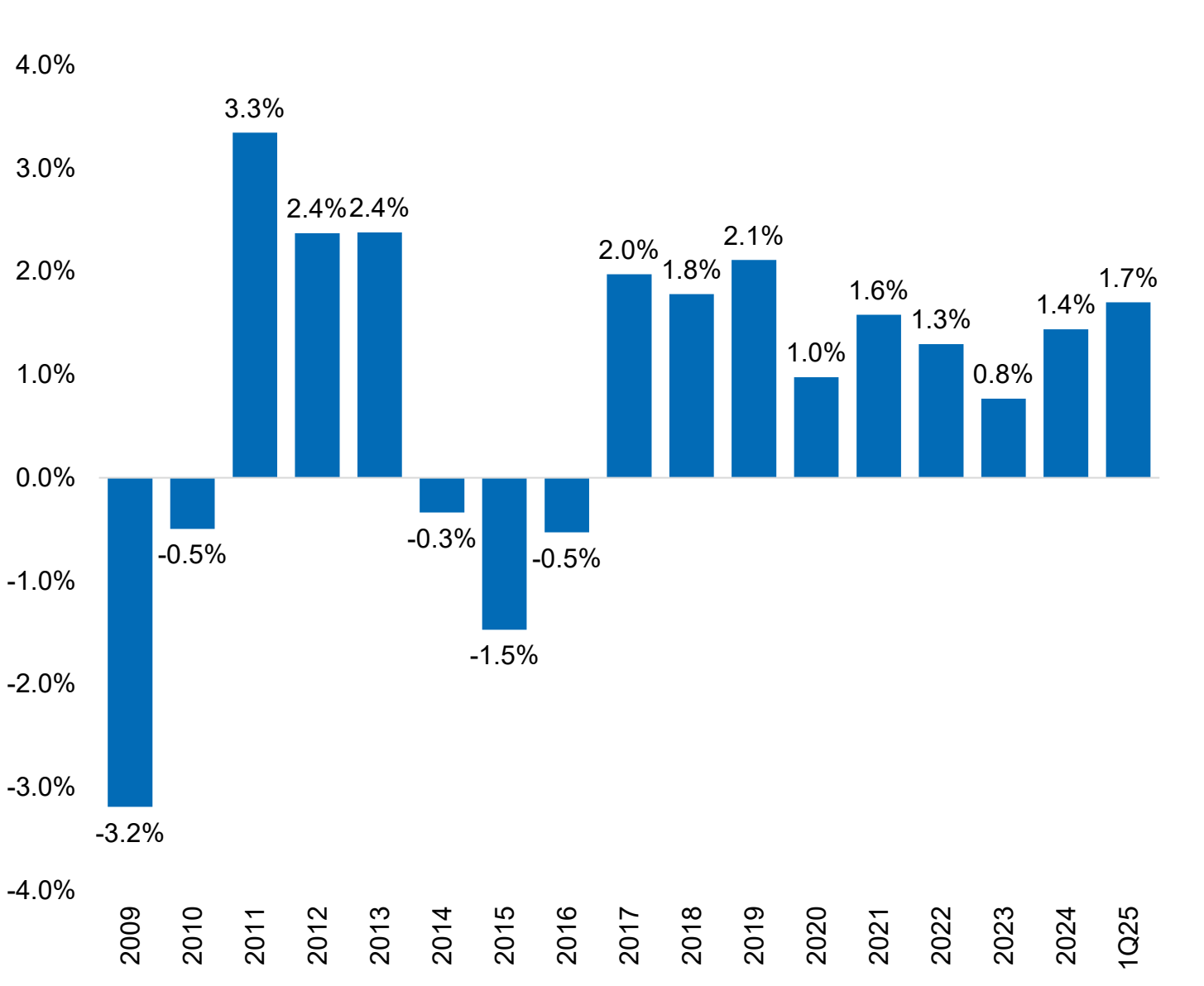
Asking Rents Rise Amid Increasing Tenant Demand and Decreasing Vacancy

Northern Virginia office rents continue to show consistent growth over the past few years, despite a decline in demand. Rents in Northern Virginia averaged \$35.57 PSF as of the first quarter of 2025, an increase of 1.7% over the past 12 months.

Office Average Asking Rent, \$/SF, FS



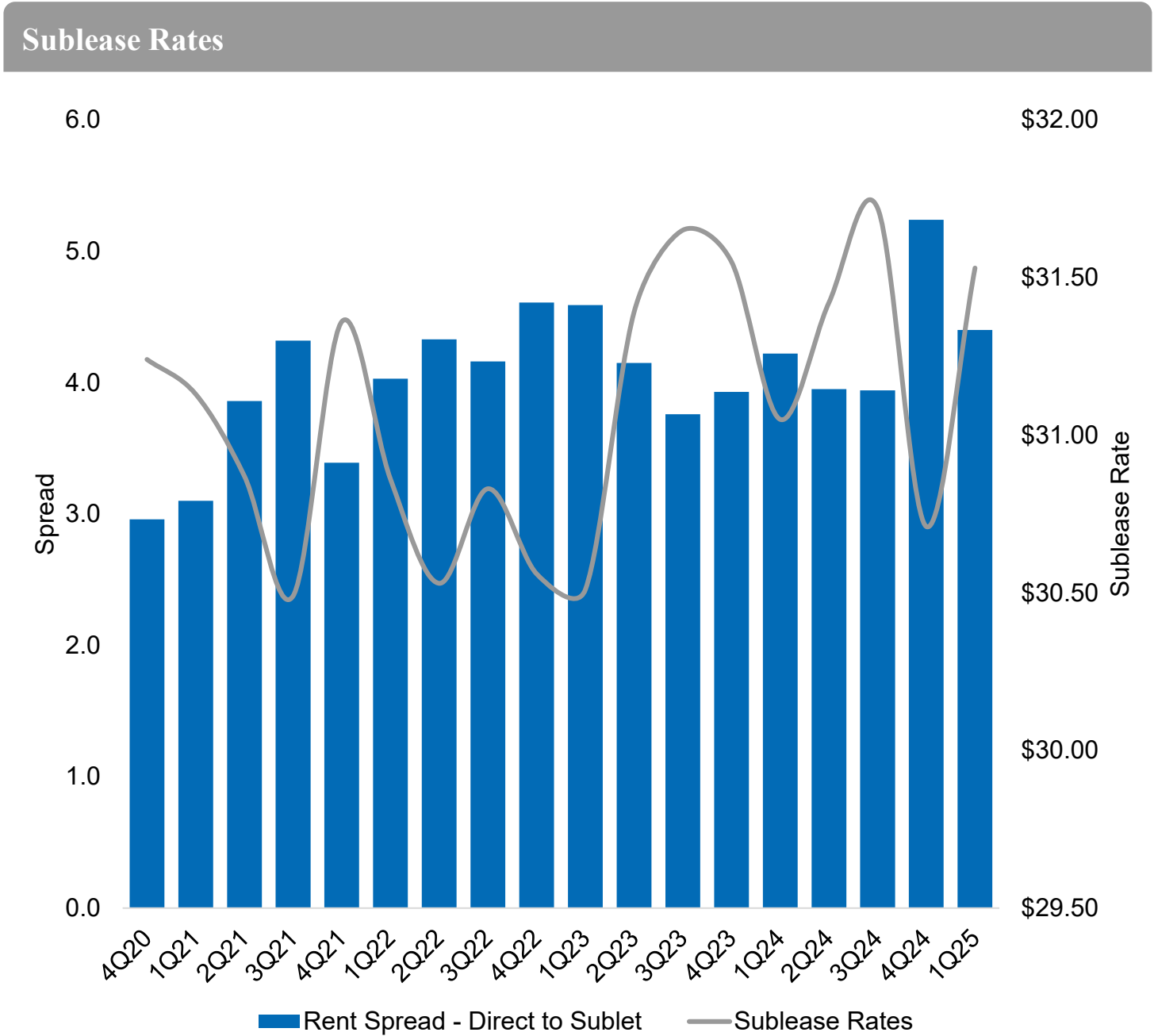
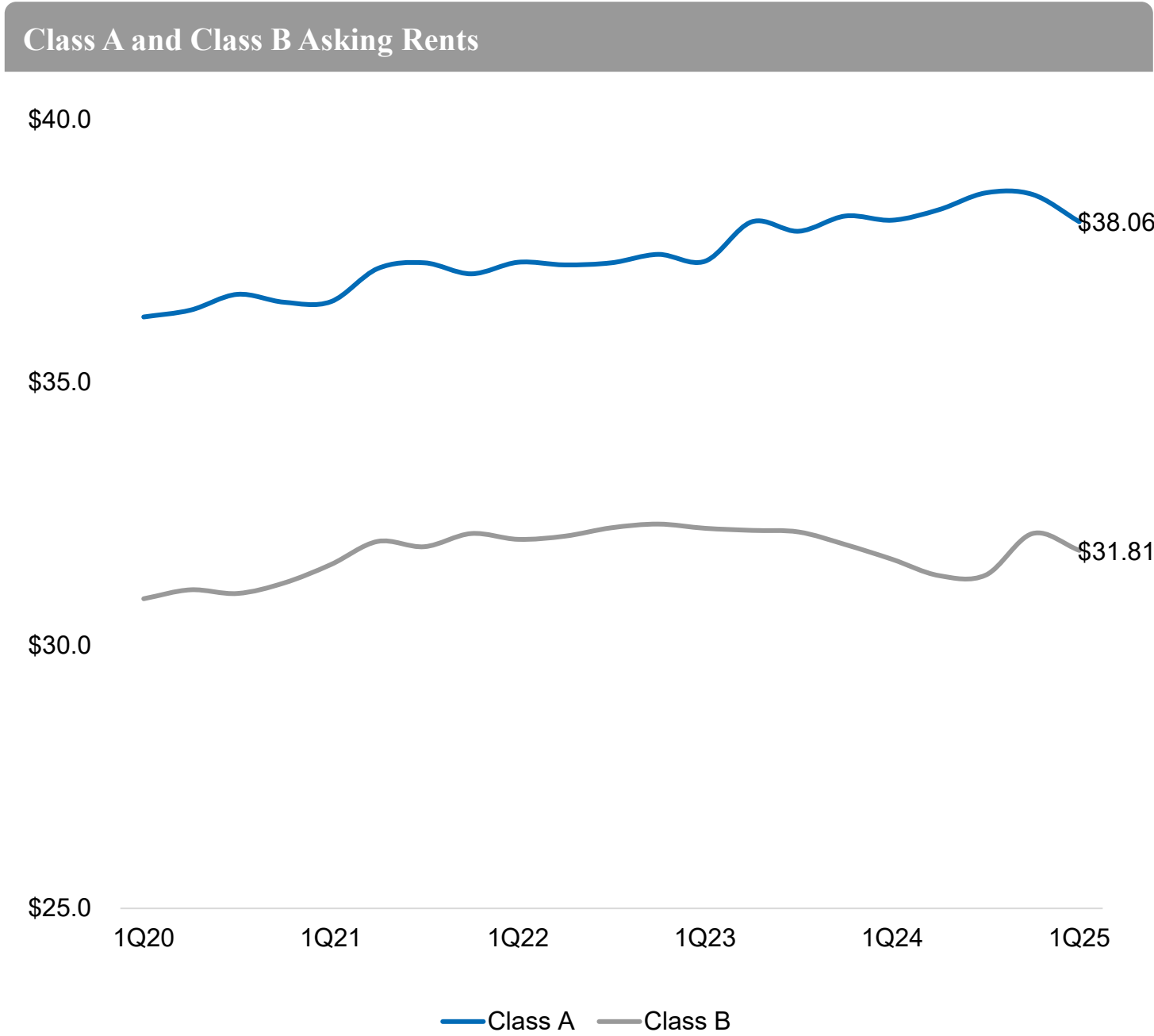
Year-over-Year Asking Rent Growth Rate



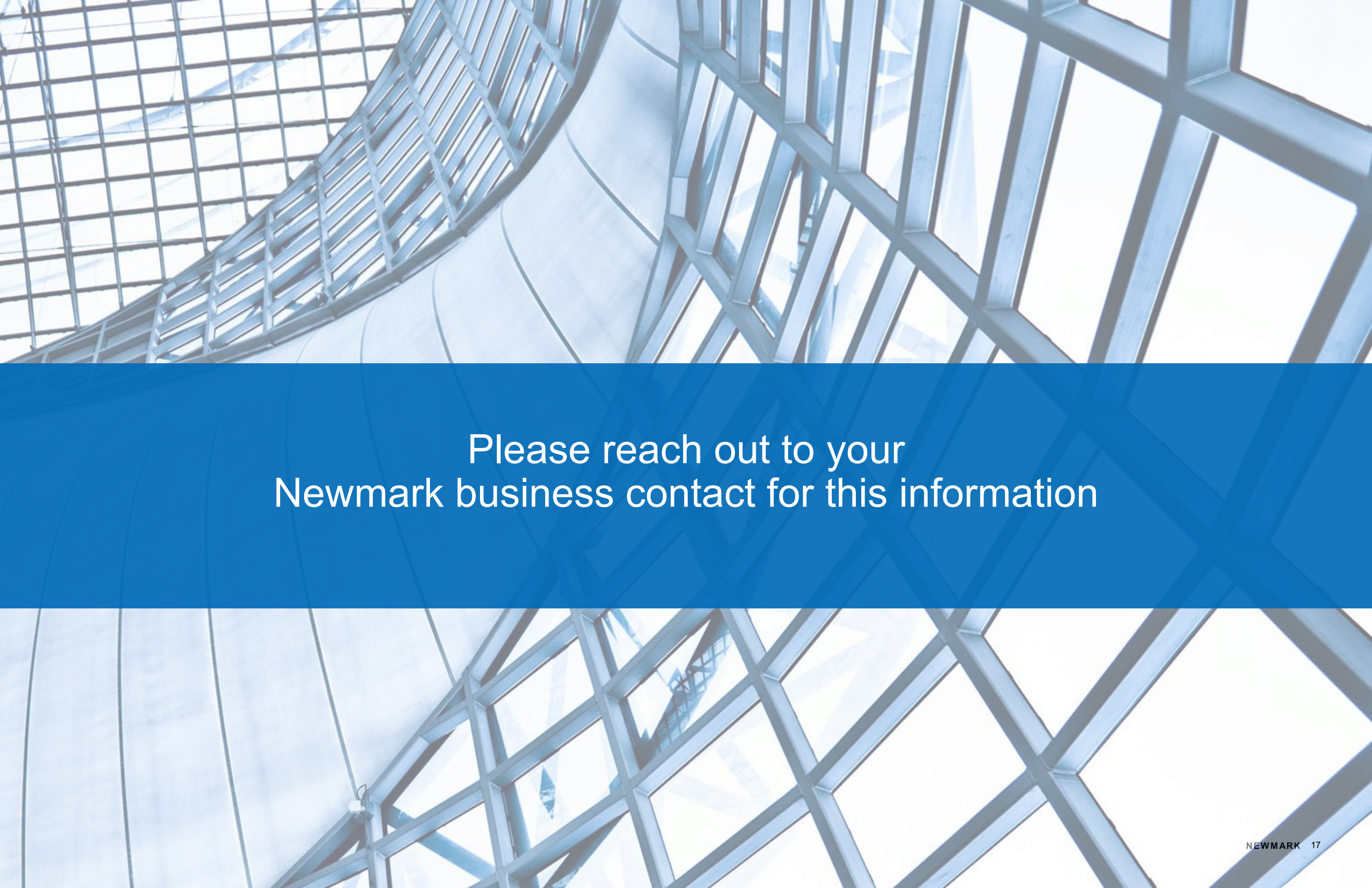
Source: Newmark Research, CoStar

Market Continues to Experience Bifurcation Between Class A and Class B Rents

Class A rents saw a slight dip over the quarter but are essentially level with a year ago, with a slight 0.1% annual decrease to end the first quarter at \$38.06/SF. Class B rents averaged \$31.81/SF as of the first quarter, an increase of 0.5% over the past year. After spiking in the fourth quarter, the spread between market and sublease rates returned closer to its long-term average. This is likely due to lower-priced sublease space being leased or pulled from the market.



Source: Newmark Research, CoStar



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Market Statistics



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Market Statistics By Class									
	Total Inventory (SF)	Overall Vacancy	Overall Availability	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Northern Virginia	160,076,250	22.3%	25.3%	65,833	65,833	0	0	312,424	\$35.57
Class A	101,350,962	23.0%	26.7%	-9,191	-9,191	0	0	312,424	\$38.06
Class B	40,463,816	22.2%	24.3%	34,417	34,417	0	0	0	\$31.81
Class C	18,261,472	18.6%	20.1%	40,607	40,607	0	0	0	\$29.91
Submarket Statistics – All Classes									
	Total Inventory (SF)	Overall Vacancy	Overall Availability	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Ballston	7,837,028	29.5%	31.7%	-183,041	-183,041	0	0	0	\$40.50
Clarendon/Courthouse	4,341,562	37.1%	41.2%	9,560	9,560	0	0	0	\$40.96
Crystal City/Pentagon City	11,623,359	28.8%	29.1%	-299,105	-299,105	0	0	0	\$38.53
Eisenhower Avenue	706,407	12.4%	12.4%	-805	-805	0	0	0	\$29.07
Fairfax Center	9,570,932	21.3%	26.8%	-10,283	-10,283	0	0	0	\$28.97
Gainesville	247,772	7.9%	8.4%	0	0	0	0	0	\$24.21
Herndon	10,386,842	29.5%	40.0%	-61,744	-61,744	0	0	0	\$32.57
I-395 Corridor - Alexandria	1,784,916	15.6%	16.4%	-1,983	-1,983	0	0	0	\$32.51
I-395 Corridor - Arlington	1,595,158	10.1%	15.4%	-21,104	-21,104	0	0	0	\$34.35
I-395 Corridor - Fairfax	3,605,120	26.4%	23.3%	41,662	41,662	0	0	0	\$29.96

Source: Newmark Research

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Submarket Statistics – All Classes									
	Total Inventory (SF)	Overall Vacancy	Overall Availability	Quarterly Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Manassas	2,802,379	6.8%	7.9%	24,344	24,344	0	0	0	\$25.04
Merrifield	7,911,032	16.9%	19.4%	-61,318	-61,318	0	0	0	\$31.74
Old Town Alexandria	10,733,561	25.1%	27.0%	-48,993	-48,993	0	0	0	\$38.13
Reston	18,617,059	24.1%	28.3%	-26,801	-26,801	0	0	222,674	\$35.59
Rosslyn	8,456,598	20.8%	23.0%	313,051	313,051	0	0	0	\$43.81
Rt. 28 North	5,428,791	8.8%	8.4%	-7,953	-7,953	0	0	0	\$27.37
Rt. 28 South	12,814,652	14.3%	16.3%	101,456	101,456	0	0	0	\$29.55
Rt. 7 Corridor	5,068,976	11.0%	12.8%	-12,264	-12,264	0	0	89,750	\$29.58
Springfield	4,797,474	18.1%	20.5%	99,613	99,613	0	0	0	\$28.89
Stafford County	847,068	17.7%	15.0%	6,933	6,933	0	0	0	\$30.35
Tysons Corner	27,469,070	24.9%	30.0%	102,262	102,262	0	0	0	\$38.50
Virginia Square	1,340,962	33.9%	11.2%	114,231	114,231	0	0	0	\$37.93
Western Loudoun County	795,188	6.9%	10.0%	0	0	0	0	0	\$29.15
Woodbridge	1,294,344	7.3%	4.0%	-11,885	-11,885	0	0	0	\$26.80

Source: Newmark Research

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