

NEWMARK

# Northern Virginia Office Market Overview

1Q26

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# Market Observations



## Economy

- The Washington region's labor market has softened, with unemployment rising to 4.2% as of year-end 2025, up 110 basis points year-over-year. Nonfarm job growth contracted during 2025, reflecting the impact of federal government cuts and broader economic uncertainty.
- Office-using sectors continue to soften, with declines in Professional & Business Services and Information employment, while Financial Activities saw only modest growth. Federal government employment also declined sharply, weighing on overall office demand.
- Office-using employment remains slightly above pre-pandemic levels but declined year-over-year, with limited near-term growth expected as federal pullback and lack of new demand drivers constrain expansion.



## Leasing Market Fundamentals

- Northern Virginia's office market posted 234,883 SF of positive net absorption during the first quarter of 2026, as tenants continued to occupy space from prior leasing activity. Vacancy declined to 20.8%, down 20 basis points year-over-year.
- Leasing activity moderated during the first quarter following a strong fourth quarter of 2025, with demand driven by select, requirement-based transactions rather than broad-based expansion.
- In Northern Virginia, rents averaged \$37.85/SF during the first quarter of 2026, reflecting 0.8% growth since year-end. Rent growth has moderated but remains supported by limited new supply and continued tenant preference for higher-quality space.
- The market's development pipeline remains historically low, with only two properties totaling 89,750 SF under construction as of the first quarter of 2026.



## Major Transactions

- A notable transaction during the first quarter of 2026 was the sale of 8000 Jones Branch Drive in McLean. The 244,466-square-foot office property traded for approximately \$103.0 million, or \$421/SF, to a joint venture between GIC and Blue Owl Capital, reflecting continued investor interest in well-located, high-quality suburban assets despite broader capital markets challenges.
- Office investment sales continue to face pricing pressure, with average pricing declining significantly from prior cycle peaks. As of the first quarter of 2026, average pricing in the region measured approximately \$158/SF, down from over \$280/SF in 2021 and well below peak levels exceeding \$350/SF during the mid-2000s cycle. Transaction activity remains limited, reflecting continued bid-ask spread challenges and elevated capital costs.



## Outlook

- Supply-side contraction through limited new development and ongoing office conversions is expected to gradually tighten availability, supporting a slow rebalancing of market fundamentals despite still-elevated vacancy.
- Leasing activity is expected to remain uneven in the near term, with demand concentrated in requirement-driven transactions as tenants navigate ongoing federal budget, procurement, and policy uncertainty.
- Looking ahead, sustained federal defense spending and demand from government contractors, professional services, and technology firms are expected to provide a stabilizing base for leasing activity.
- Flight to quality is expected to persist, with tenants continuing to favor newer, amenitized, and transit-oriented assets.

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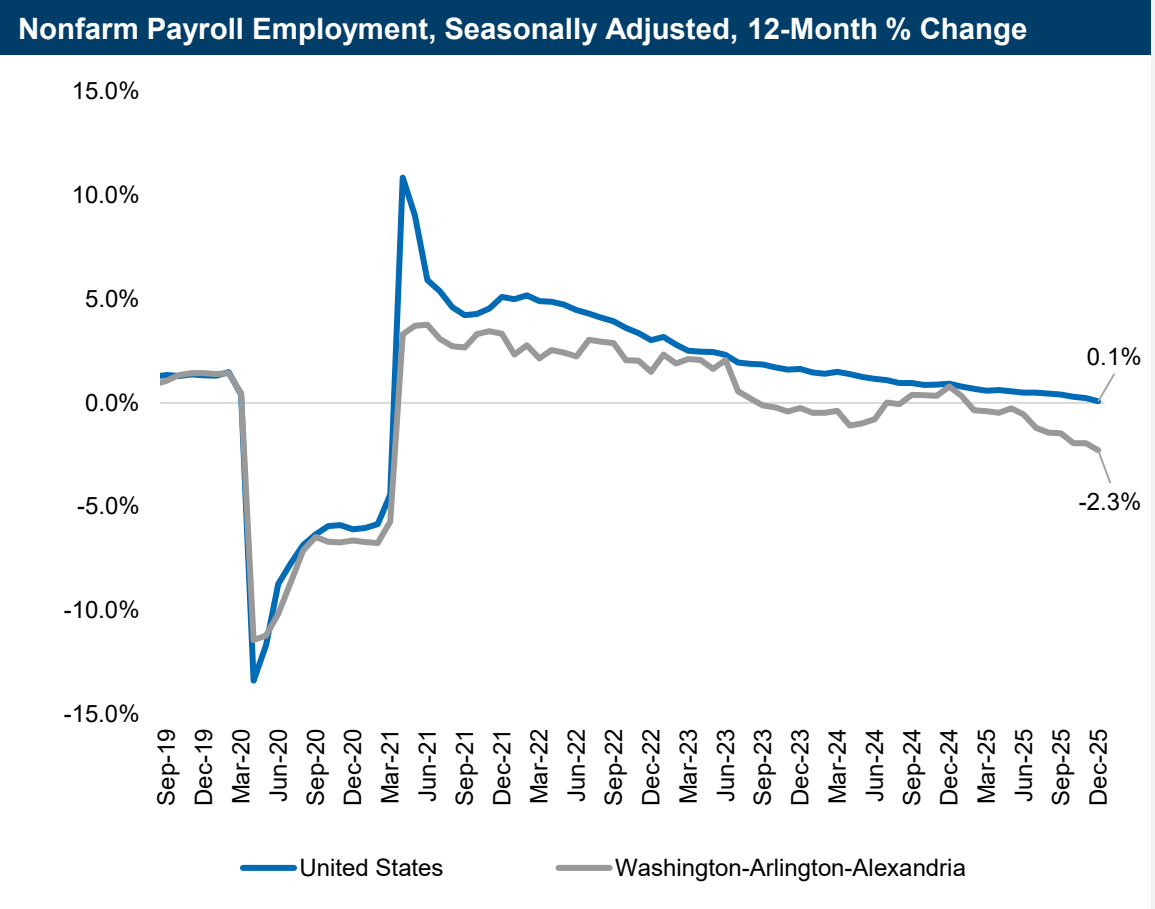
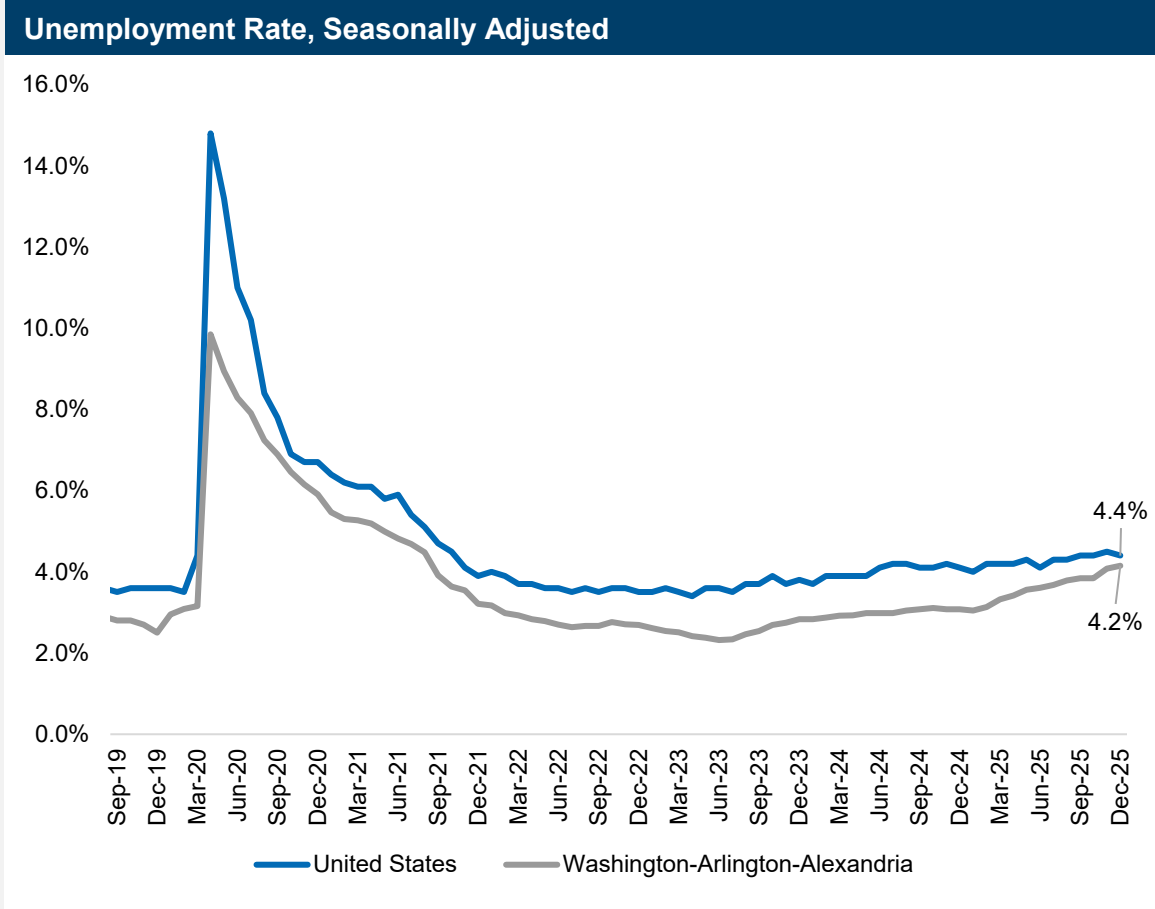
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## Economy



# Local Nonfarm Employment Data Shows Job Contraction During 2025

According to the most recently released data, the labor market remains tight, though more data from recent months will likely show growing unemployment in the Washington region. The fall's federal government shutdown, as well as deferred resignations, contributed to negative employment growth. The metro's unemployment rate increased quarter-over-quarter as data became available after the shutdown ended, though without October figures included. As of December 2025, the region's unemployment rate was 4.2%, an increase of 110 basis points compared with the same period last year. 12-month seasonally adjusted regional nonfarm job growth was negative for much of 2025, declining by 2.3% as of December.

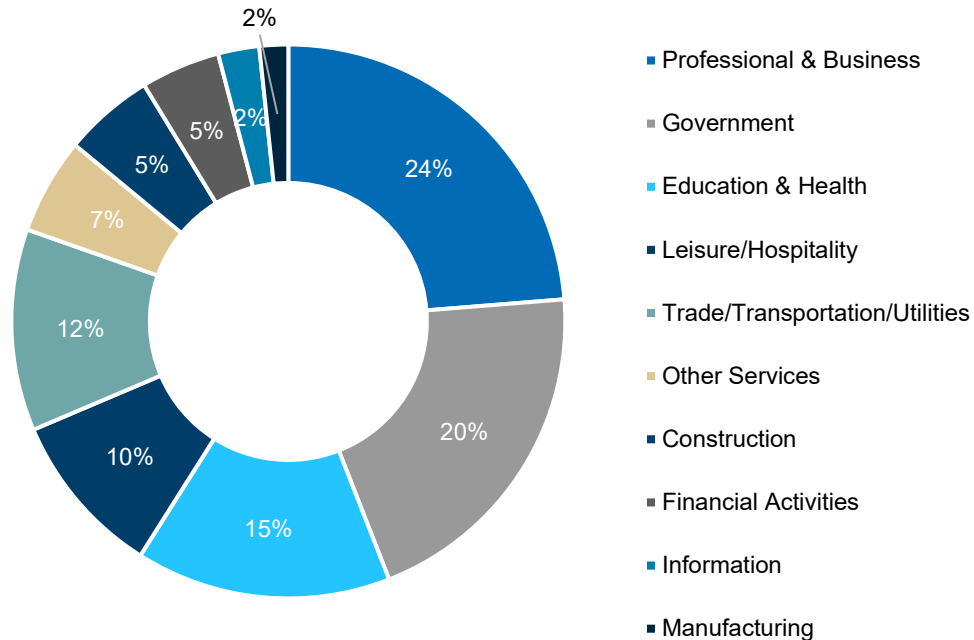


Source: Moody's, Washington-Arlington-Alexandria; Newmark Research

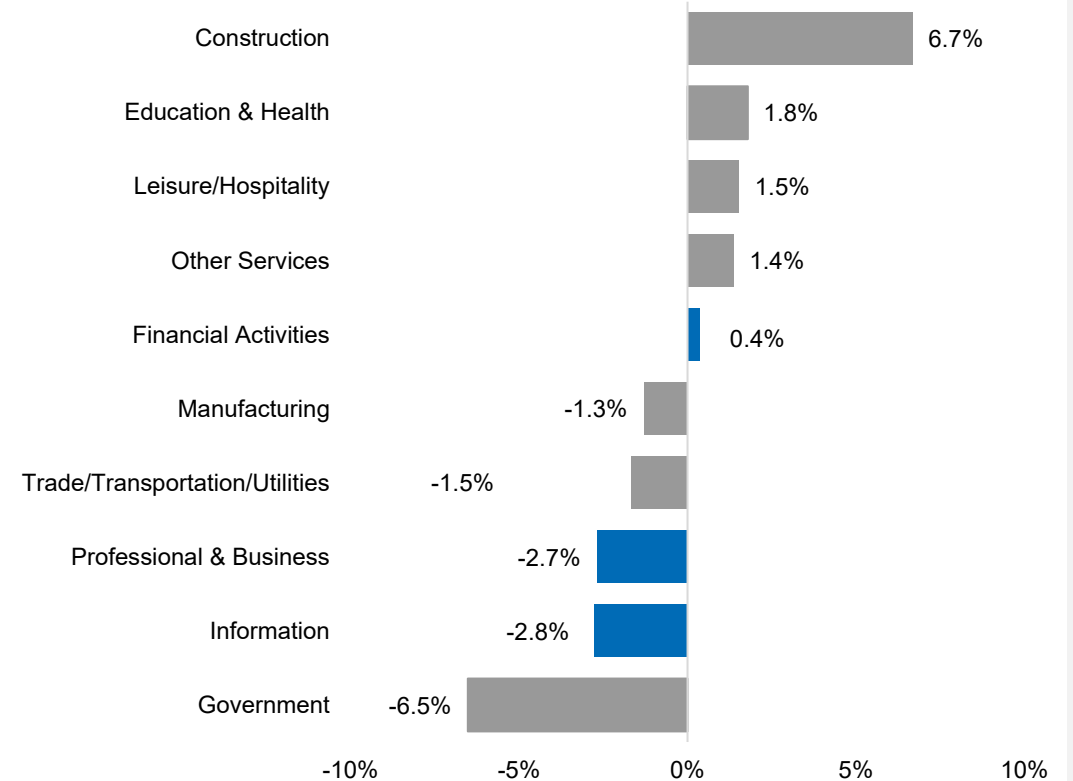
# Washington Metro Area Job Growth Driven by Construction and Education & Health

The Construction sector propped up job growth in the region with a 6.7% 12-month increase. The Education & Health, Leisure/Hospitality and Other Services sectors also experienced 12-month growth. The Financial Activities sector was the only office-using sector to see positive, though limited, growth over the last twelve months, at 0.4%, while the Professional & Business Services (-2.7%) and Information (-2.8%) sectors experienced job contraction. The Government sector registered job losses of 6.5% year-over-year after the impacts of DOGE and federal government cuts. According to the Bureau of Labor Statistics, the region saw federal government jobs decline by 14.3% during 2025.

Employment by Industry, December 2025

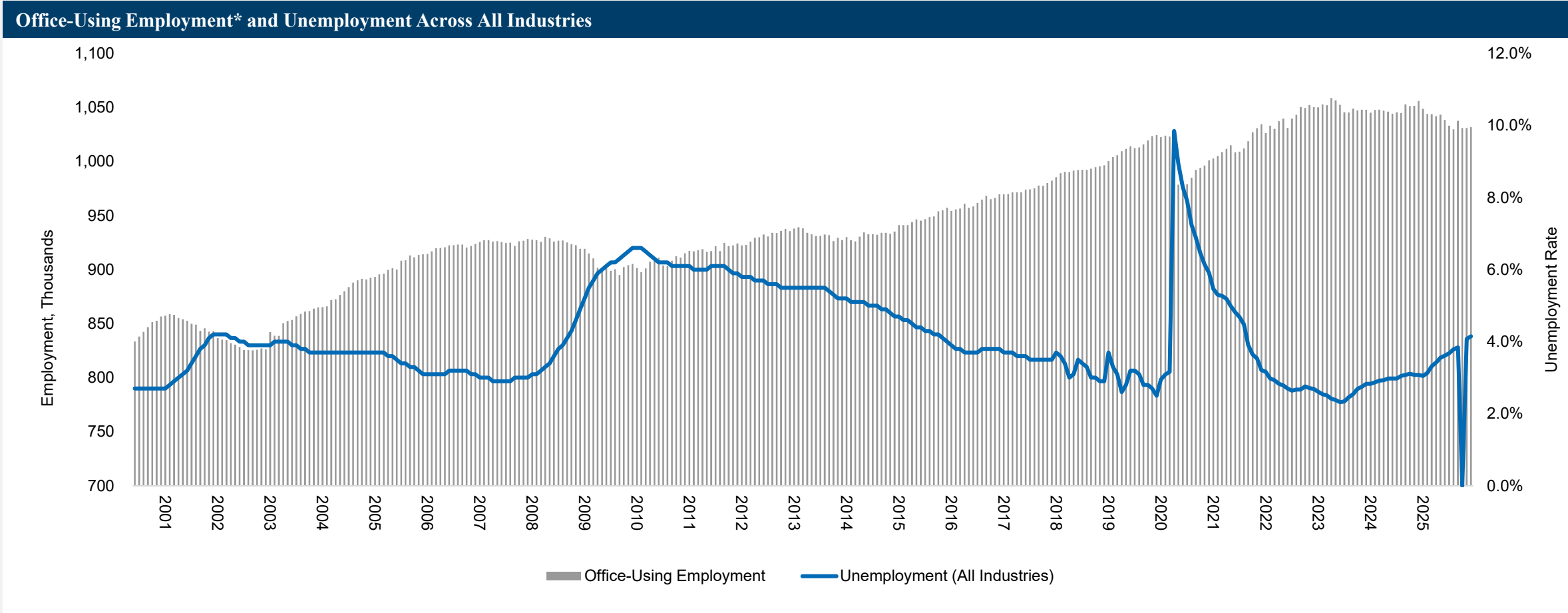


Employment Growth by Industry, 12-Month % Change, December 2025



# Office-Using Employment Has Lost Traction

The number of office jobs exceeds pre-pandemic levels as of December 2025 – the most recently available data – but are down year-over-year. Office-using jobs in the region are currently 3.1% higher than five years ago, but only 0.9% higher than in March 2020, just before the pandemic began. Year-over-year office employment declined by 2.3%, due in part to DOGE actions and their impact on the regional workforce. While government job losses were impactful, private sector stagnation as a result may prove just as significant. Declines in two out of three office-using sectors demonstrate the need for a new office stimulant to propel growth in the region.



Source: Moody's; Newmark Research

\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.



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## Leasing Market Fundamentals

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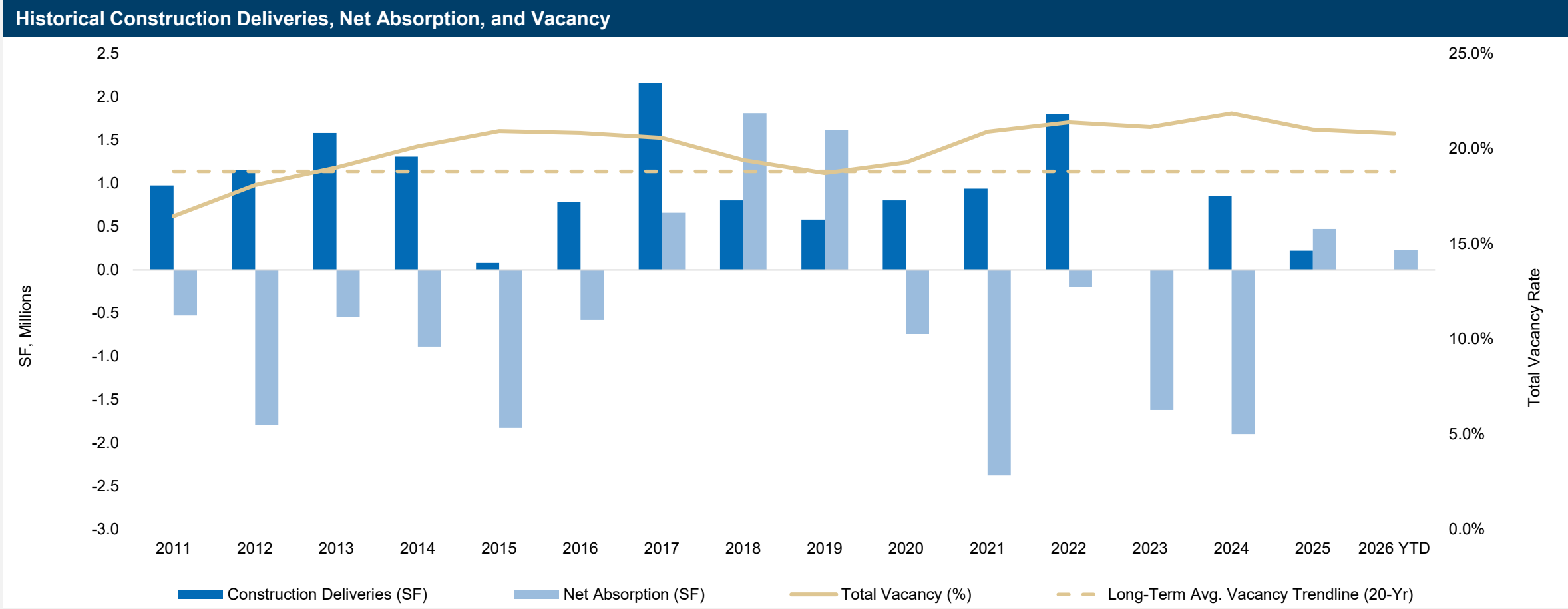
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# Market Exhibits Positive Momentum During First Quarter

Northern Virginia’s office market posted 234,883 square feet of positive net absorption during the first quarter of 2026, as large tenants began occupying committed space from a relatively strong year of leasing in 2025. Vacancy declined to 20.8% during the quarter, down 50 basis points year-over-year, reflecting limited new supply and improving space utilization across select submarkets. The development pipeline remains limited, with just 89,750 SF under construction in Northern Virginia, well below the long-term average. Limited speculative office construction, along with planned conversions, will continue to place downward pressure on vacancy and support a gradual rebalancing of supply and demand.



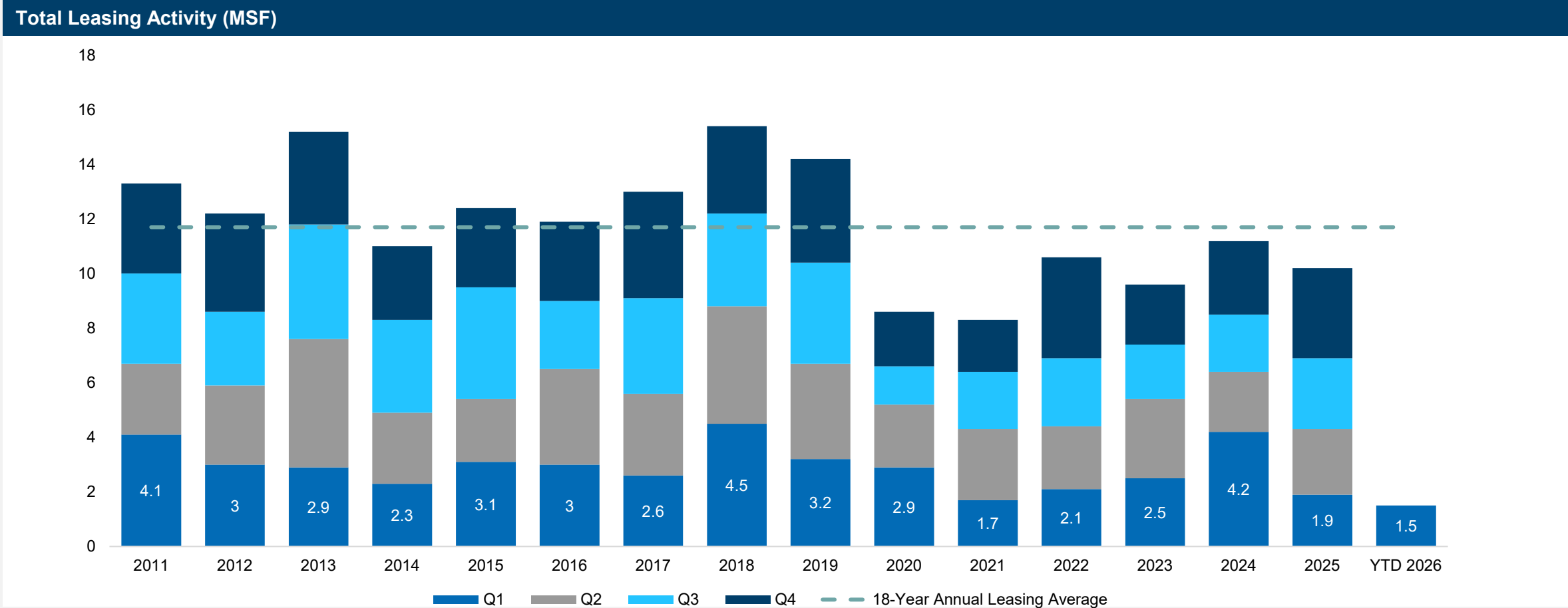
Source: Newmark Research, CoStar



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# Leasing Activity Moderates During First Quarter

The Northern Virginia office market registered 1.5 MSF of leasing activity during the first quarter of 2026, a moderate slowdown following a robust fourth quarter of 2025. Volume remains well below the pace of the previous five years (9.7 MSF annually) and the 10-year leasing average (11.1 MSF). Ongoing uncertainty surrounding federal budget negotiations, procurement timing, and agency-level policy shifts continues to weigh on leasing decisions, particularly among government contractors and professional services firms that anchor Northern Virginia’s office market. While visibility around funding levels improved toward the end of 2025, momentum has yet to translate into sustained leasing activity, as many tenants remain cautious in their space decisions. As a result, leasing activity may remain uneven in the near term, with periodic spikes tied to large, requirement-driven transactions.

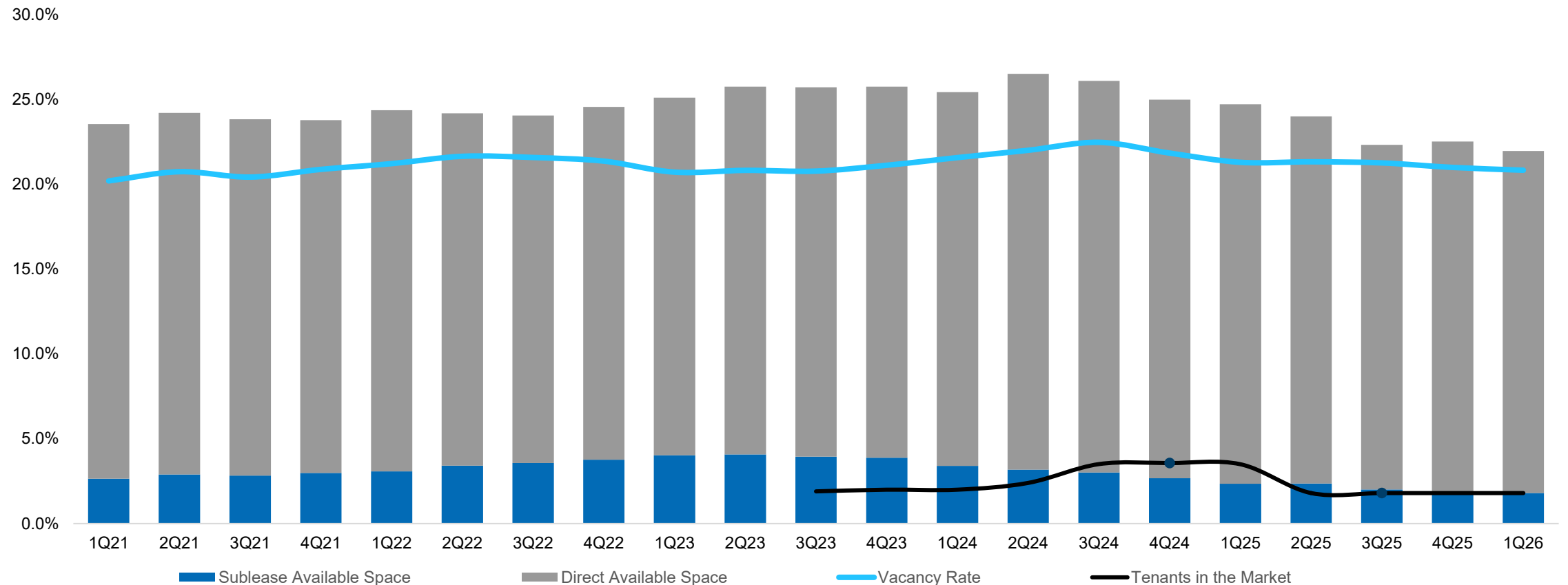


Source: Newmark Research, CoStar  
 \*Year-to-date data is subject to change from CoStar data and is often lagging

# Vacancy Declines as Sublease Availability Continues to Tighten

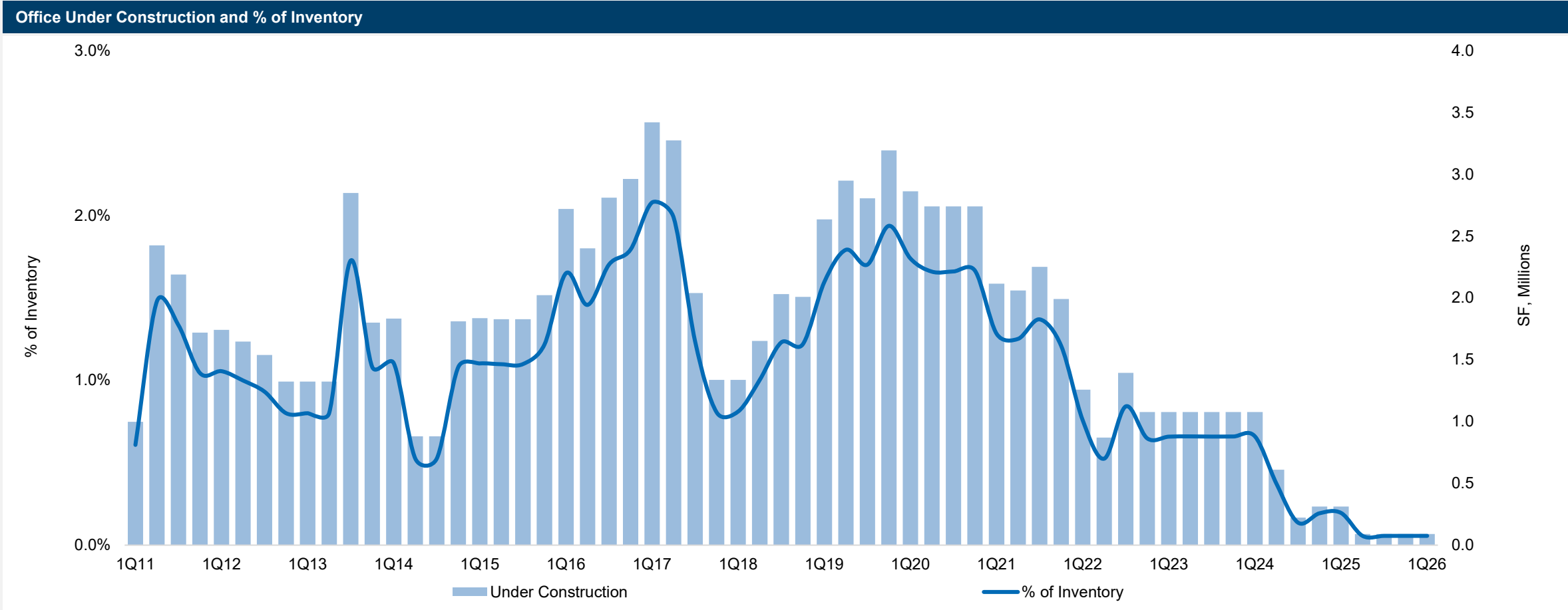
Sublease availability continued to tick down, ending the first quarter at 1.8%—its lowest level since the second quarter of 2020 and below the recent historical average. Direct availability measured 20.2% at the end of the first quarter, down 220 basis points year-over-year and continues to trend downward following its peak in 2024. The Northern Virginia office market entered 2026 with a vacancy rate of 20.8%, down 20 basis points from the prior quarter and 50 basis points year-over-year. While overall vacancy remains elevated, the continued reduction in sublease space and gradual stabilization in direct availability suggest improving supply-demand fundamentals.

Available Space and Tenant Demand as Percent of Overall Market



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

There has been one office delivery in Northern Virginia since the third quarter of 2024—Comstock’s 1880 Reston Row Plaza—which delivered 222,674 vacant square feet during the second quarter of 2025. The market’s development pipeline remains historically low, with only two properties totaling 89,750 SF under construction as of the first quarter of 2026. This limited new supply will continue to help ease vacancy. Separately, demand for spec suites remains elevated, particularly within highly amenitized, newly renovated, or recently constructed buildings.

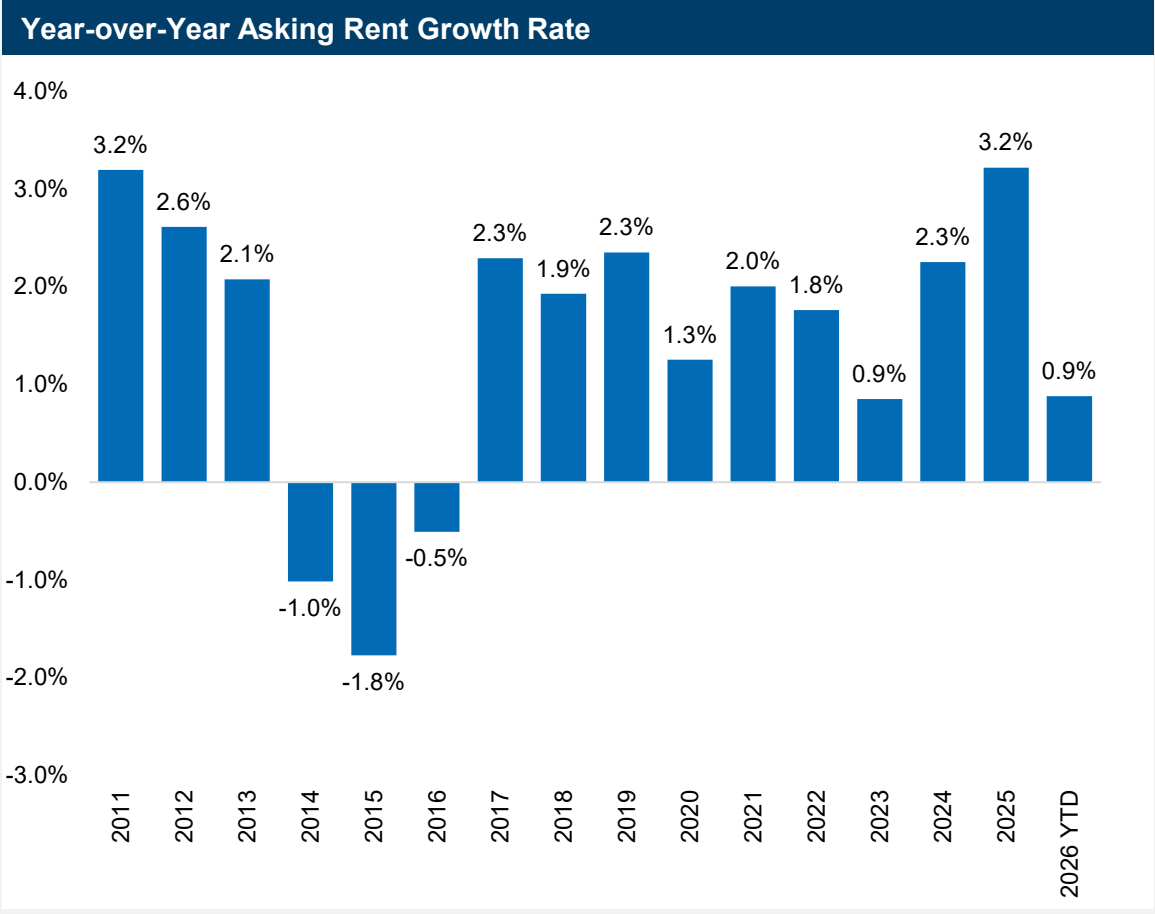
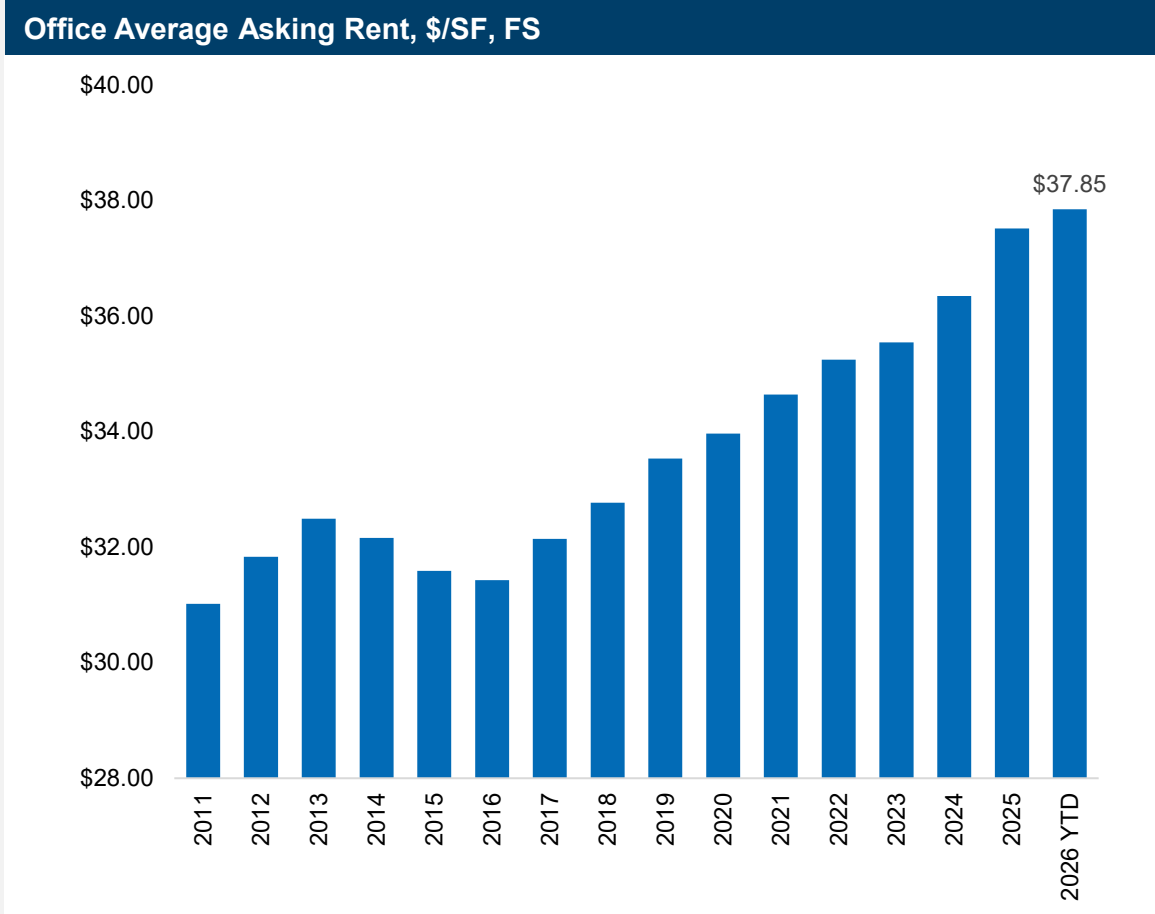




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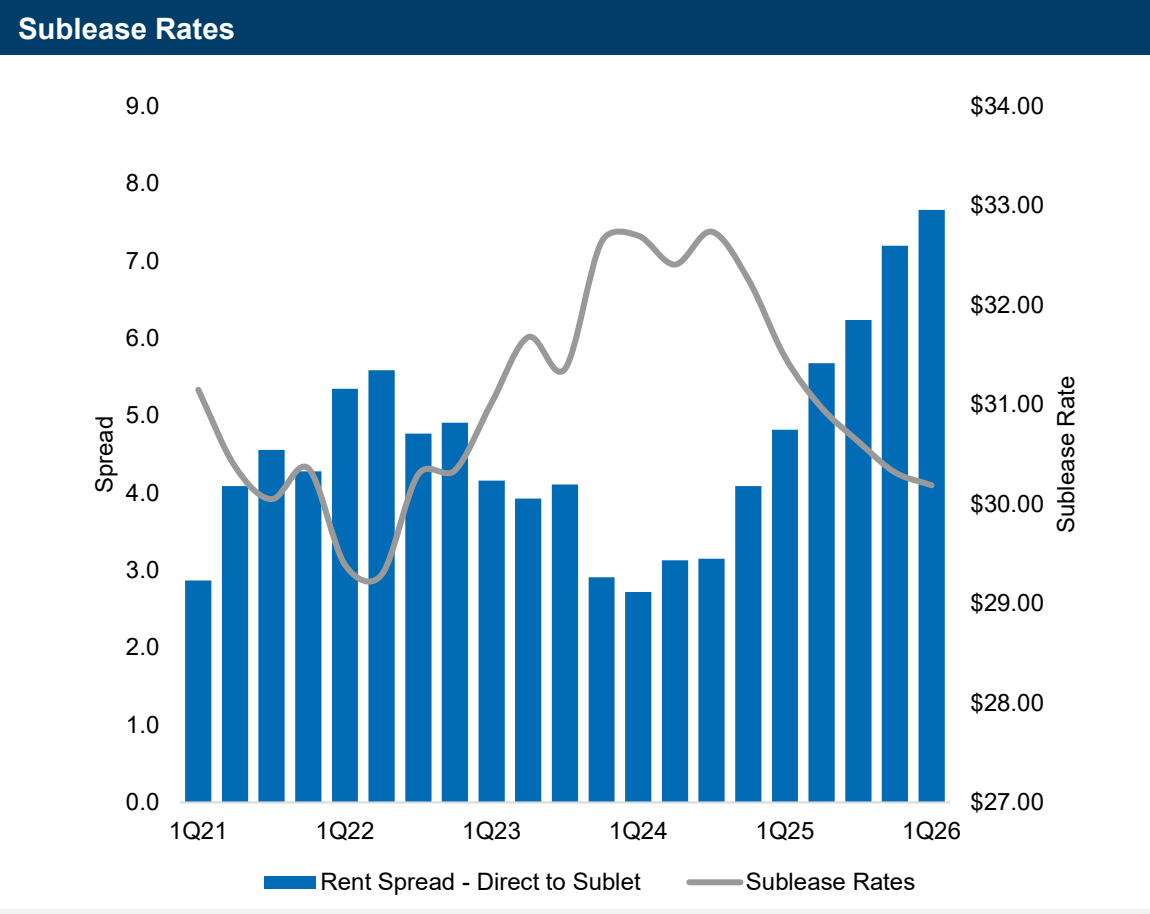
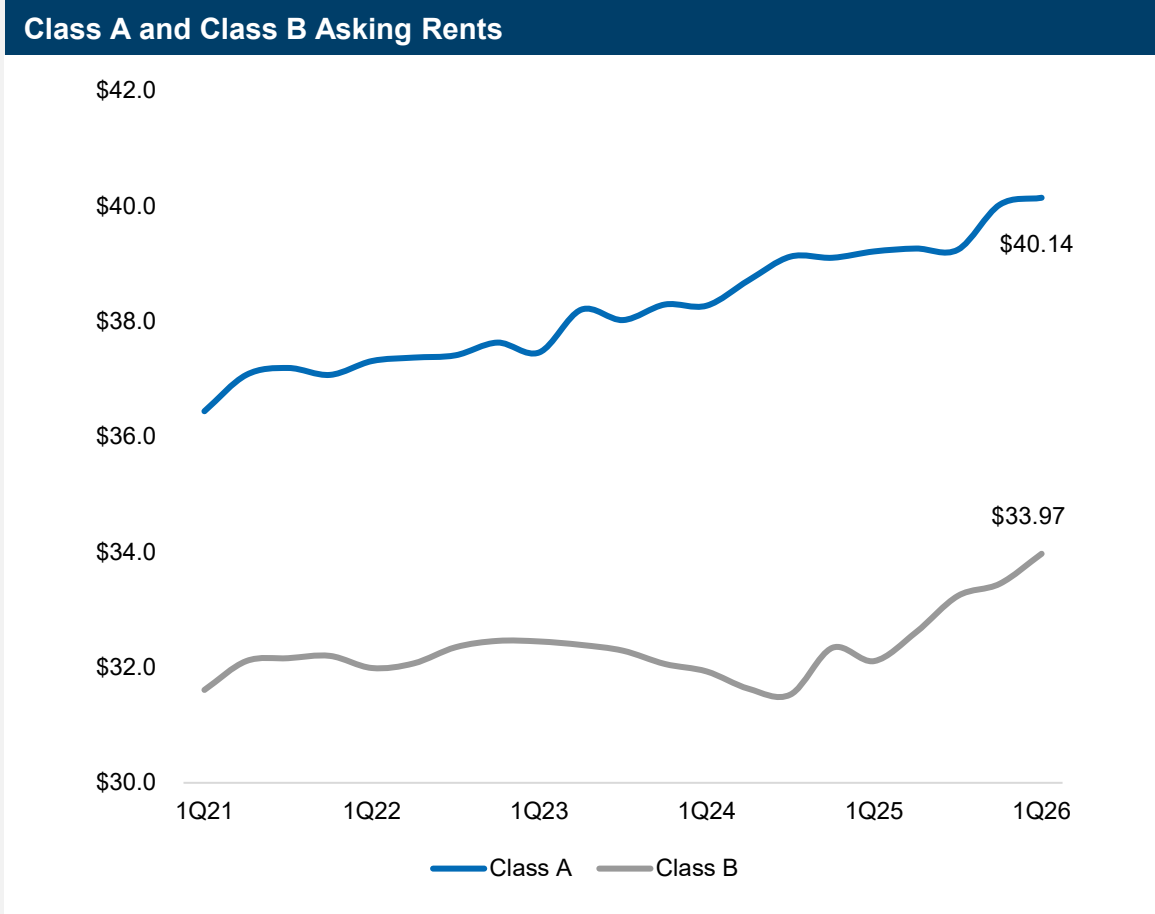
# Asking Rents Remain Resilient Despite Softening Demand

Asking rents have increased each year since 2016, rising 19.2% overall during this period, or approximately 1.9% annually. In Northern Virginia, rents averaged \$37.85/SF as of the first quarter of 2026, an increase of 0.9% year-over-year. Despite softer tenant demand and elevated vacancy, rents continue to trend upward, supported by limited new supply and sustained pricing power in higher-quality assets. While growth has moderated from recent peaks, fundamentals remain supportive of continued—albeit slower—rent gains.



# Class A Rent Premium Holds as Direct-to-Sublet Spread Remains Elevated

Class A rents during the first quarter of 2026 averaged \$40.14/SF, up 2.4% year-over-year. Class B rents averaged \$33.97/SF, up 5.8% year-over-year. Overall, Class A rates maintain a premium of approximately 18.1% over Class B rents in Northern Virginia, in line with recent quarters. The spread between direct and sublease rates remains elevated, though growth has stabilized following recent expansion. While sublease rates declined over the past year, the gap between market and sublease pricing continues to reflect tenant preference for higher-quality space and ongoing pricing pressure in the sublease market.



# Leasing Activity Moderates as Mid-Sized Deals Lead First Quarter

The Northern Virginia office market saw several notable leases signed during the first quarter of 2026, though overall activity moderated from the prior quarter. While large, requirement-driven transactions continue to drive leasing volume, activity during the quarter was more heavily weighted toward mid-sized deals rather than the large, headline transactions that defined recent quarters. Leasing activity was concentrated among government contractors and professional services firms, with tenants continuing to prioritize newer, well-located space across core submarkets such as Reston, Herndon, and Crystal City/Pentagon City. The largest transactions during the quarter were primarily new leases, reflecting tenant relocations into higher-quality space and a continued focus on efficiency and evolving workplace strategies.

## Notable 1Q 2026 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
GRVTY	2551 Dulles View Drive	Herndon	New Lease	46,402
Apogee Research	4201 Wilson Boulevard	Ballston	Lease Expansion	46,333
Applied Research Associates	6361 Walker Lane	Springfield	New Lease	45,735
ePlus	13900 Lincoln Park Drive	Rt. 28 South	New Lease	41,957
American Public Power Association	2733 Crystal Drive	Crystal City/Pentagon City	New Lease	34,000

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## Market Statistics

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