

2Q25

Northern Virginia Office Market Overview

NEWMARK

Market Observations



Economy

- Although the metro’s unemployment rate increased slightly quarter-over-quarter, the region’s labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% 12-month increase as of May.
- While total nonfarm employment increased by 0.8% over the last twelve months, office-using employment sectors saw small growth or contraction. The Professional & Business Services (-0.5%) and Information (-0.2%) sectors each registered 12-month declines, while the Financial Activities sector experienced 0.2% growth over the last year.
- The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May of 2020.



Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. The 12-month average PSF of \$192 is down from the five-year peak of \$285 PSF in 3Q21. The total transaction volume in the second quarter was \$494 million, down from the recent peak of \$1.3 billion in 3Q21.
- Notable sales during the second quarter include Lookout North & South, located at 6400-6402 Arlington Boulevard in the Merrifield submarket, which was purchased by Sage Ventures in June for \$33.7 million, or \$83 PSF. The 386,262-squarefoot portfolio was last sold in February 2019 for \$38.2 million.



Leasing Market Fundamentals

- Net absorption for the region totaled negative 444,727 square feet during the second quarter of 2025, leading to a 30-basis-point increase in vacancy over the quarter, to 21.9%. Vacancy is up 90 basis points year-over-year. However, overall availability is down 150 basis points from a year ago, to register 24.2% as of the second quarter.
- Second-quarter leasing transactions were spread across Northern Virginia submarkets and many large transactions were new direct leases. Large transactions include the Department of Homeland Security lease extension of 76,897 square feet at 4601 N Fairfax Drive in the Ballston submarket.
- Rents in Northern Virginia averaged \$36.29 PSF as of the second quarter of 2025, an increase of 2.2% over the past 12 months.
- Northern Virginia has not experienced any deliveries over the last three quarters. The market’s development pipeline remains historically low, with only three properties totaling 312,000 SF under construction as of 2Q25.



Outlook

- Since 2020, 2.6 MSF of office space in Northern Virginia has been converted to other uses, with an additional 12.4 MSF of office space proposed to be converted.
- The impacts of AI are a trend to watch as near-term leasing demand may increase, including new office users seeking space close to the federal government. However, potential future impacts to employment may directly affect commercial real estate.
- Major lease transactions and development projects were on hold amid regional uncertainty, due to federal government changes pushed by the current administration. Recent Supreme Court decisions may speed cuts and reductions in force. 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.

1. Economy
2. Leasing Market Fundamentals
3. Market Statistics

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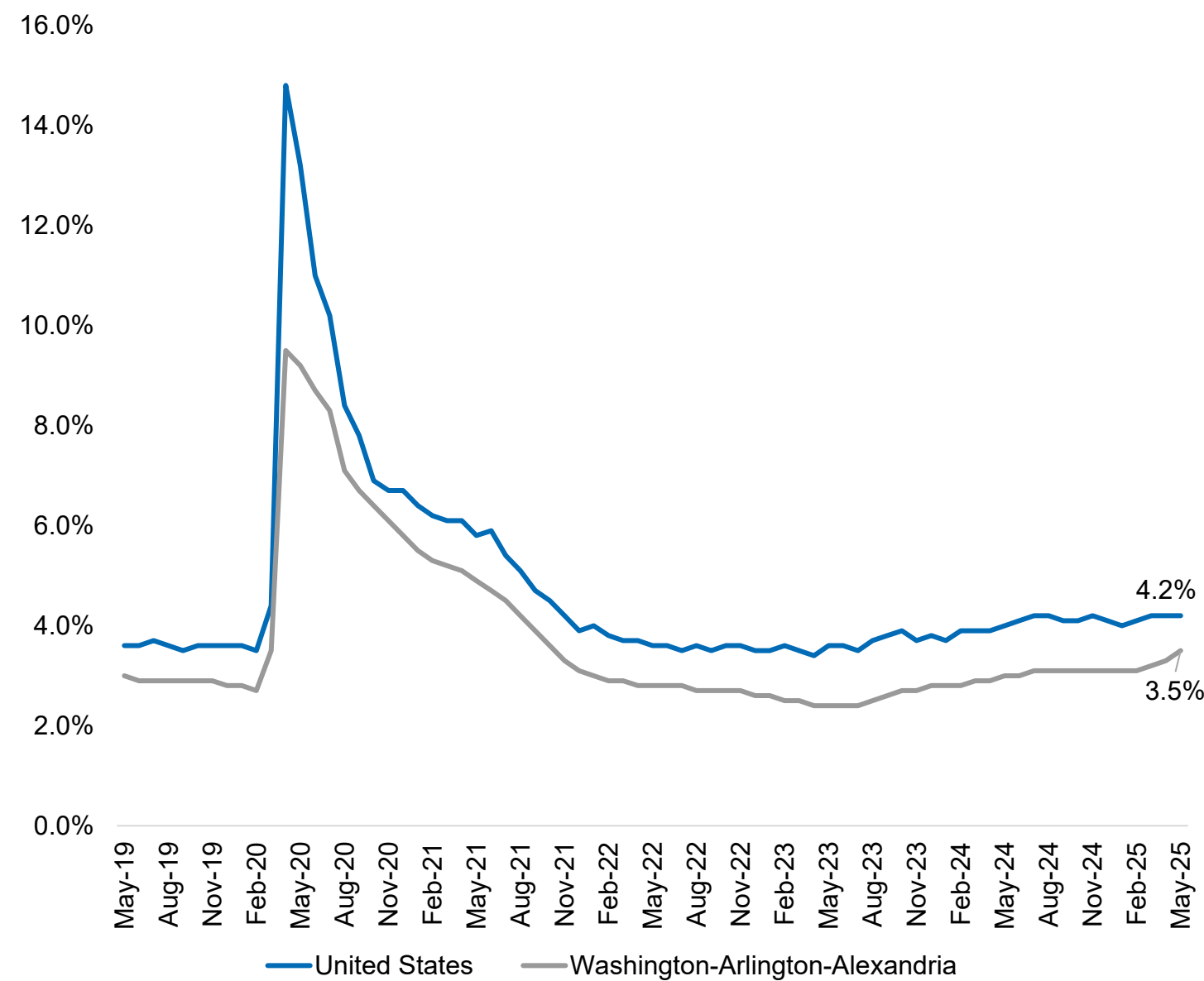
Economy



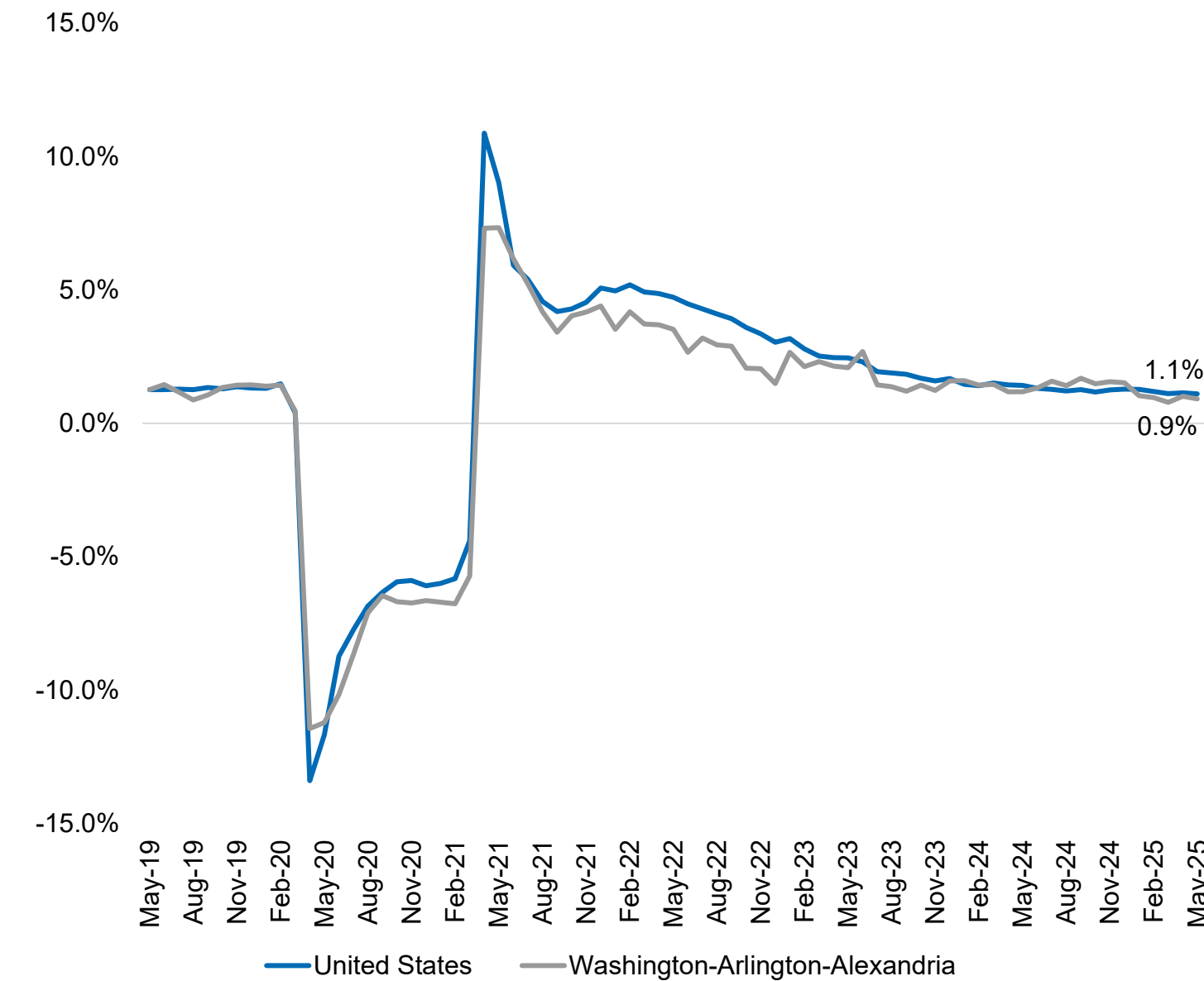
Metro Unemployment Rate Remains Tighter Than National Average

Although the metro’s unemployment rate increased slightly quarter-over-quarter, the region’s labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% 12-month increase as of May.

Unemployment Rate, Seasonally Adjusted



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



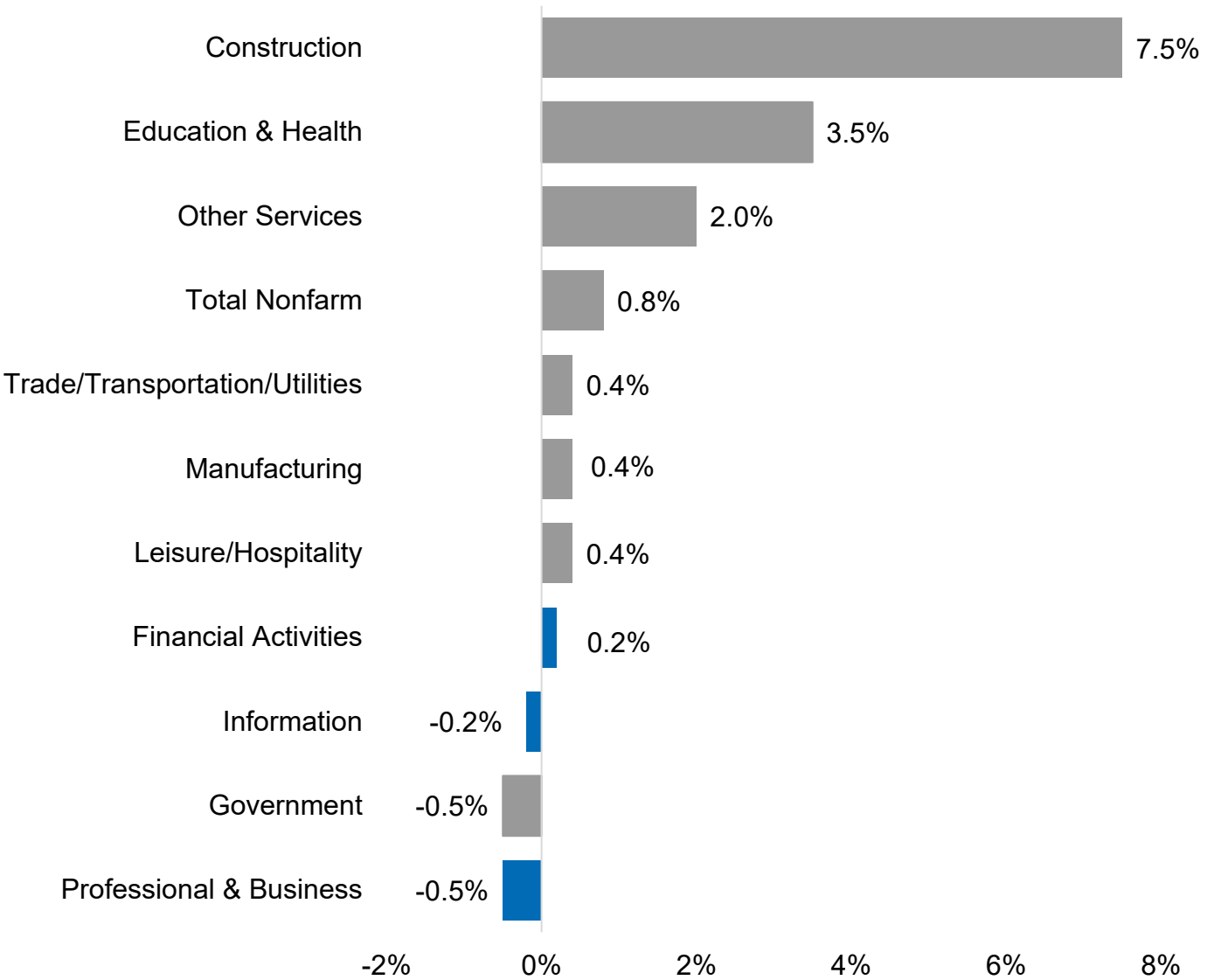
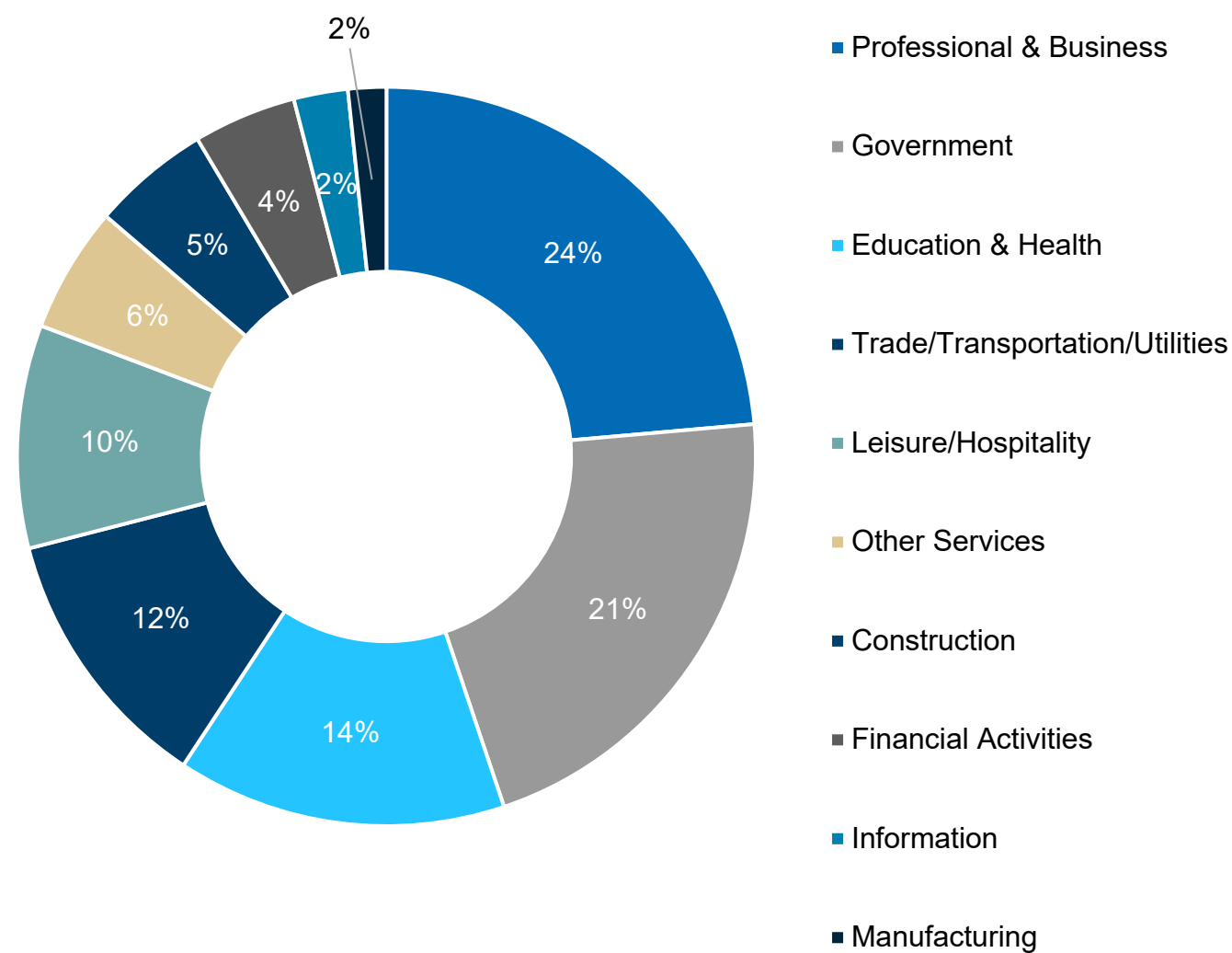
Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

Job Growth Driven by Construction Alongside Education & Health

While total nonfarm employment increased by 0.8% over the last twelve months, office-using employment sectors saw small growth or contraction. The Professional & Business Services (-0.5%) and Information (-0.2%) sectors each registered 12-month declines, while the Financial Activities sector experienced 0.2% growth over the last year.

Employment by Industry, May 2025

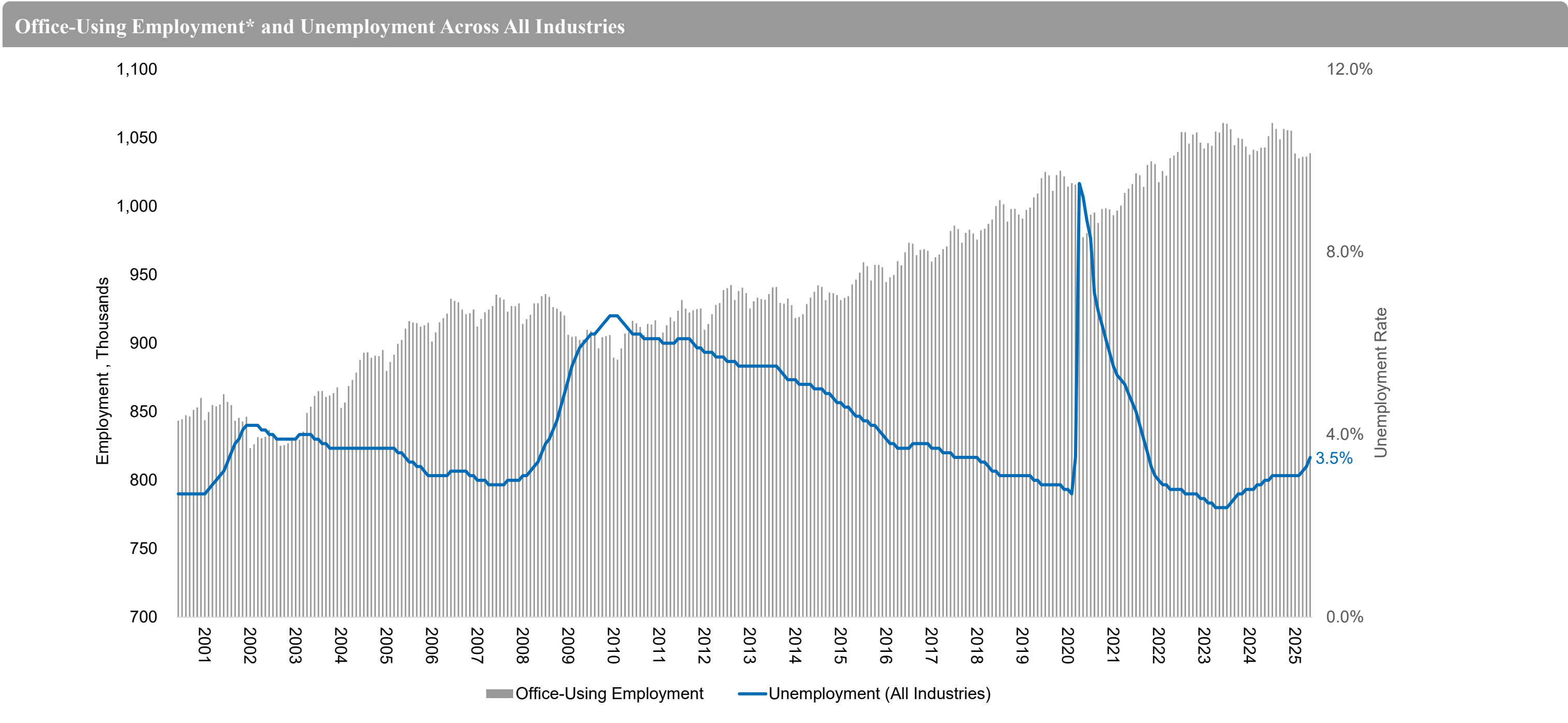
Employment Growth by Industry, 12-Month % Change, May 2025



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 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May of 2020.



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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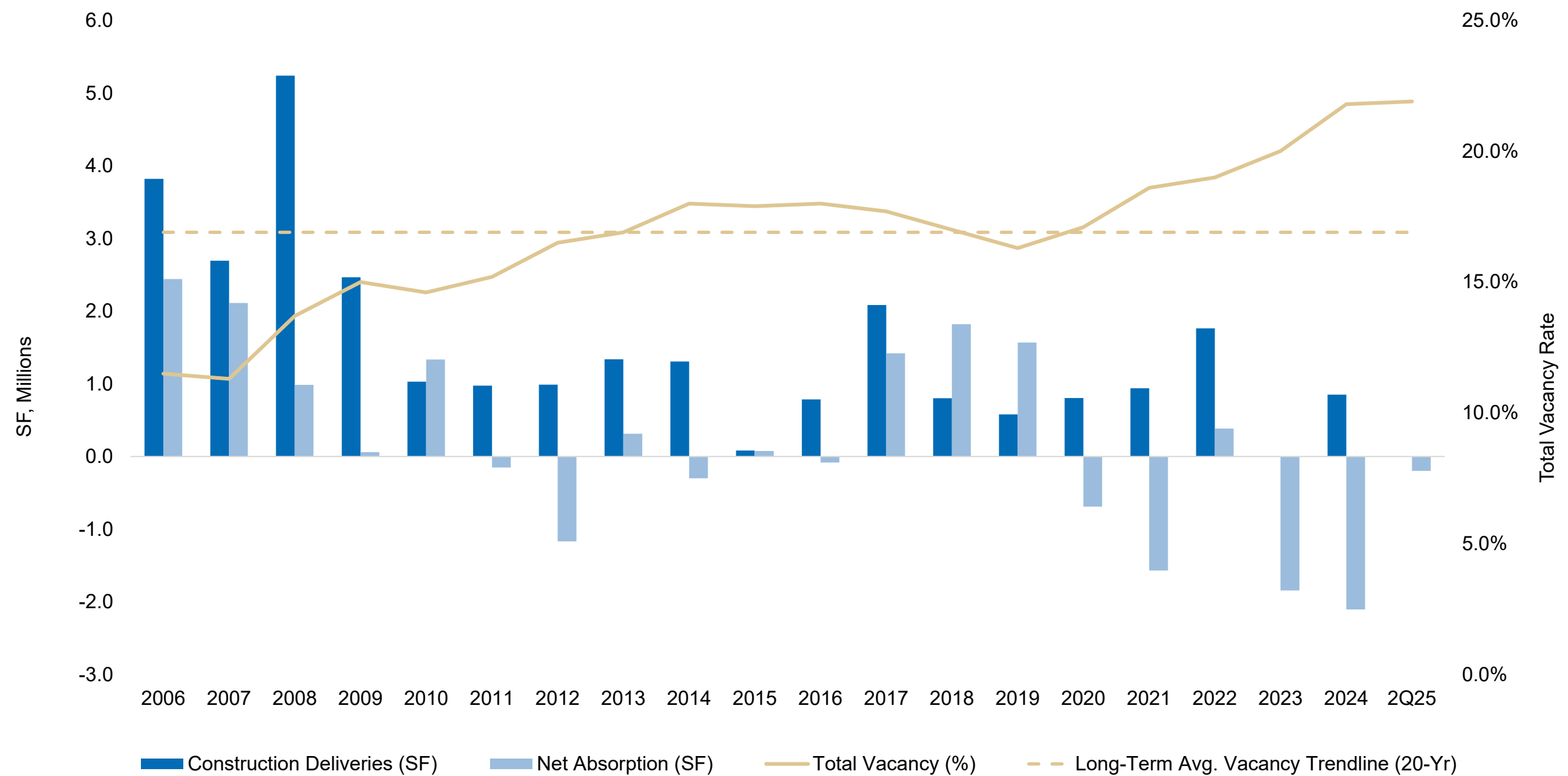
Leasing Market Fundamentals



Market Sees Negative Absorption and Increasing Vacancy During Second Quarter

After nearly a quarter-million square feet of positive absorption in the first quarter of 2025, Northern Virginia saw negative absorption of 444,727 square feet in the second quarter. As a result, the market’s vacancy rate increased to 21.9%, up 30 bps quarter-over-quarter and 90 bps compared with the same period last year. The development pipeline remains limited, with just 312,424 square feet under construction in Northern Virginia, significantly below the long-term average. Limited speculative office construction as well as planned conversions will contribute downward pressure on vacancy rates and assist in balancing supply with demand.

Historical Construction Deliveries, Net Absorption, and Vacancy



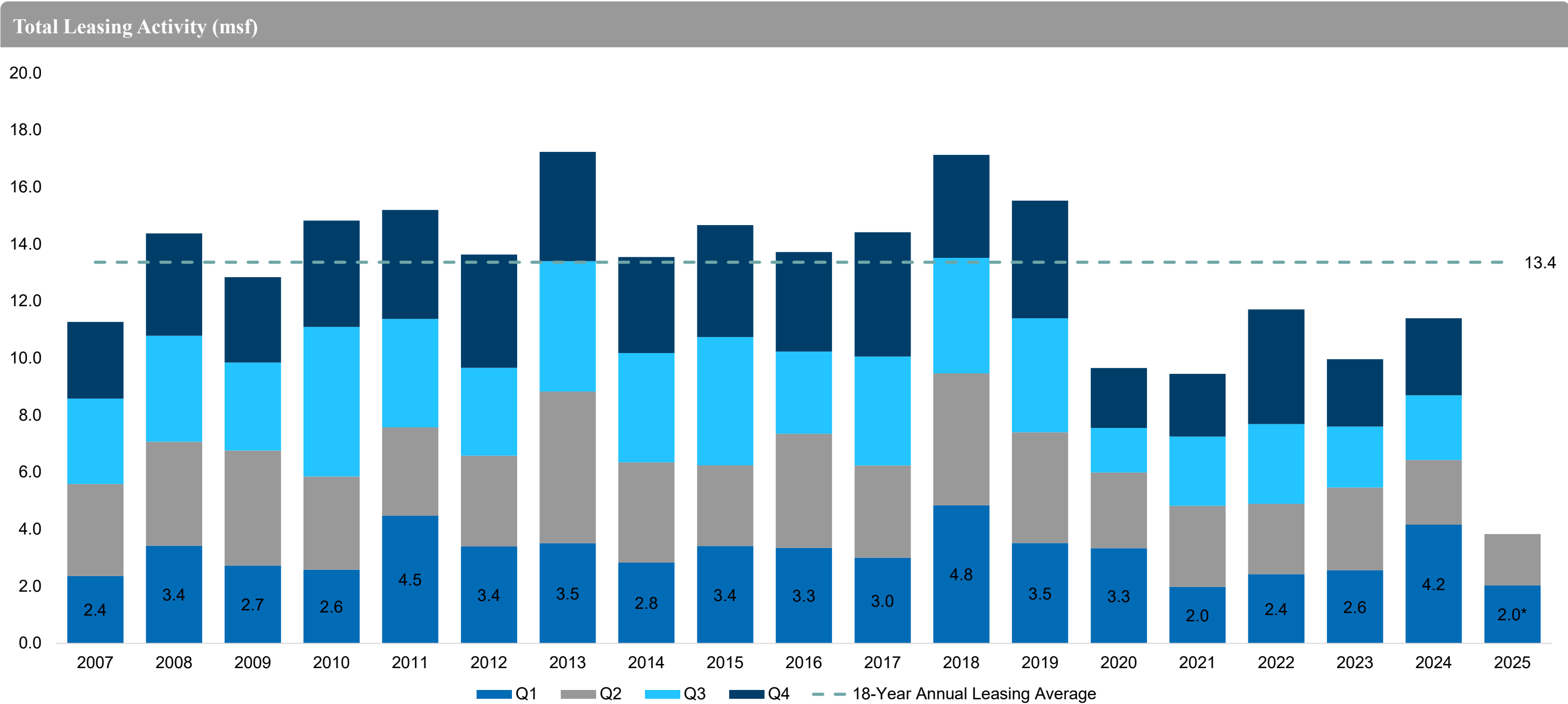
Source: Newmark Research, CoStar



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Year-To-Date Total Leasing Volume Behind Historical Average

Leasing activity during the second quarter of 2025 totaled 1.8 million square feet, which combined with 2.0 million square feet in the first quarter, puts the Northern Virginia market well below historic averages for first-half leasing activity, a trend that is partly attributable to the impacts of DOGE and uncertainty around tariffs. Many tenants in the market were either directly impacted by shifts or slowed decisions to determine longer-term impacts. Dating back to 2007, the market has averaged approximately 6.6 million square feet of leasing activity through the first two quarters of each year. During the first half of 2024, activity outpaced the current levels by 40.3%, though this gap may close after a full tally of second quarter lease transactions.

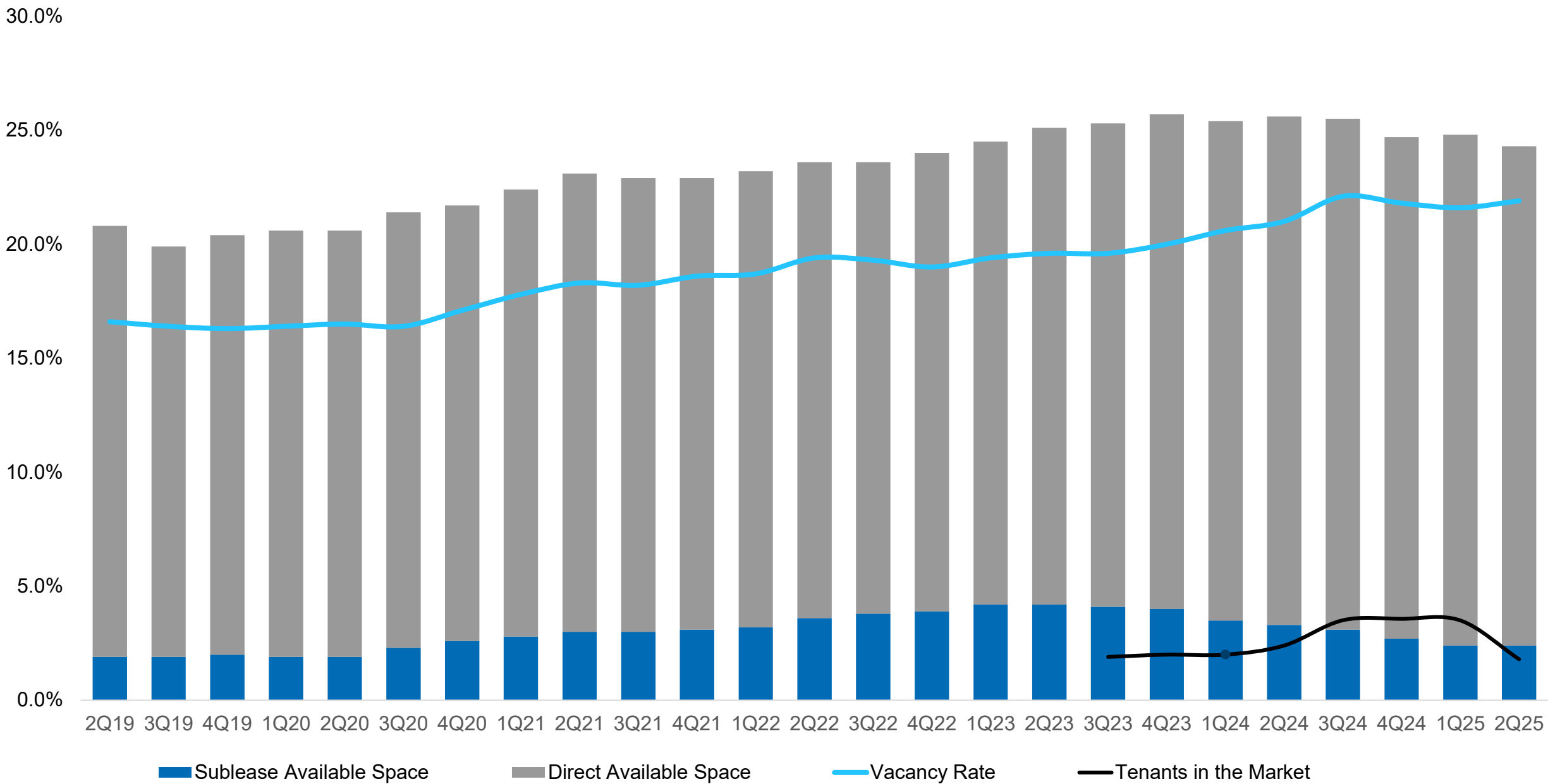


Source: Newmark Research, CoStar
*Year-to date data is subject to change from CoStar data and is often lagging

Vacancy Increases While Sublease Availability Decreases Towards Pre-Pandemic Levels

The Northern Virginia office market ended the second quarter of 2025 with a vacancy rate of 21.9%, an increase of 30 bps from last quarter and 90 bps from a year ago. Direct space availability for the quarter matched the market’s vacancy rate at 21.9%, a decrease of 50 bps from the first quarter and 40 bps over the year. The sublease availability rate for 2Q25 was 2.4%, even with the prior quarter, and down 90 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.

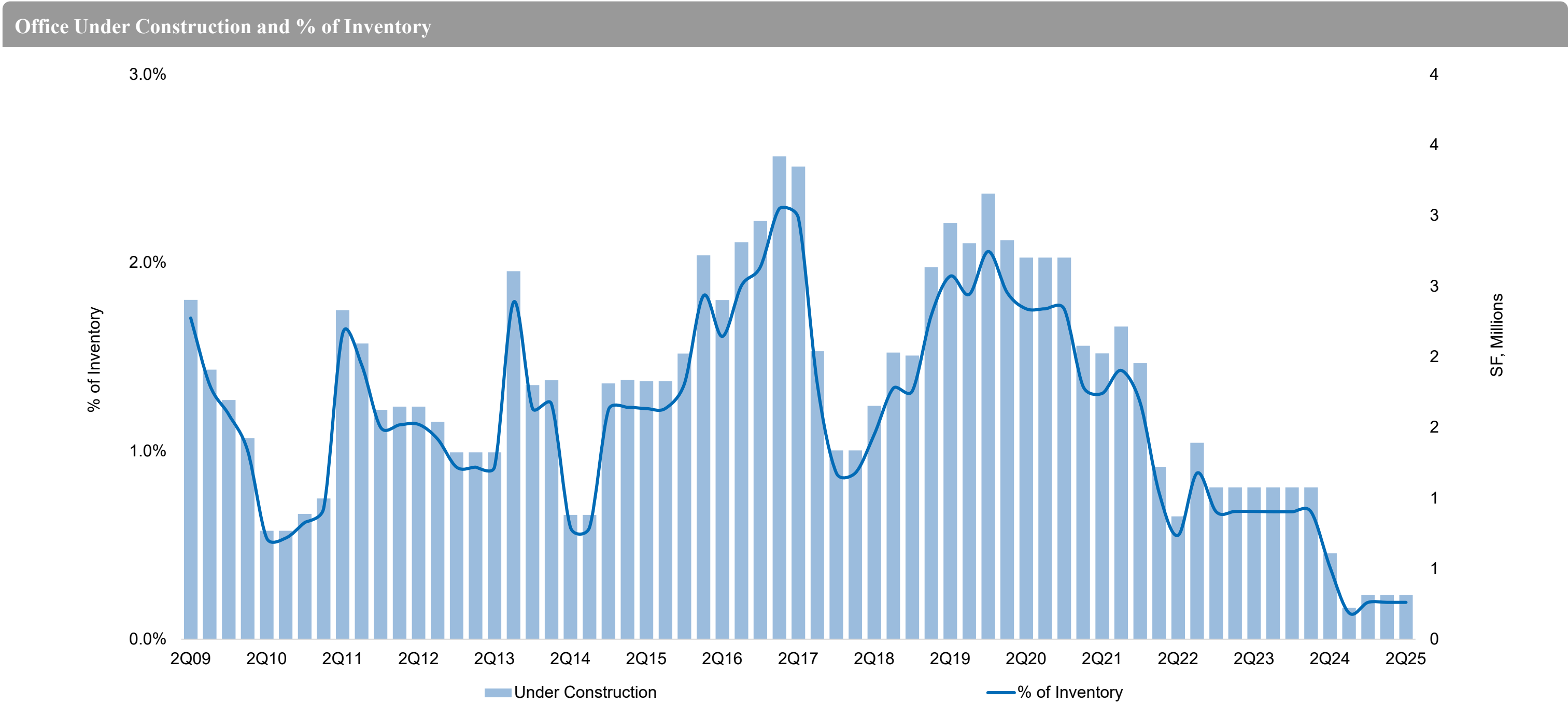
Available Space and Tenant Demand as Percent of Overall Market



Source: Newmark Research, CoStar

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

There have been no office deliveries in Northern Virginia since the third quarter of 2024. The market’s development pipeline remains historically low, with only three properties totaling 312,000 SF under construction as of 2Q25. A lack of new supply will continue to help ease vacancy. Separately, demand for spec suites is high, specifically in highly-amenitized, newly renovated or recently constructed buildings. Leasing activity for spec suites in buildings such as Lookout at 6400 is strong, providing downward pressure on vacancy rates.

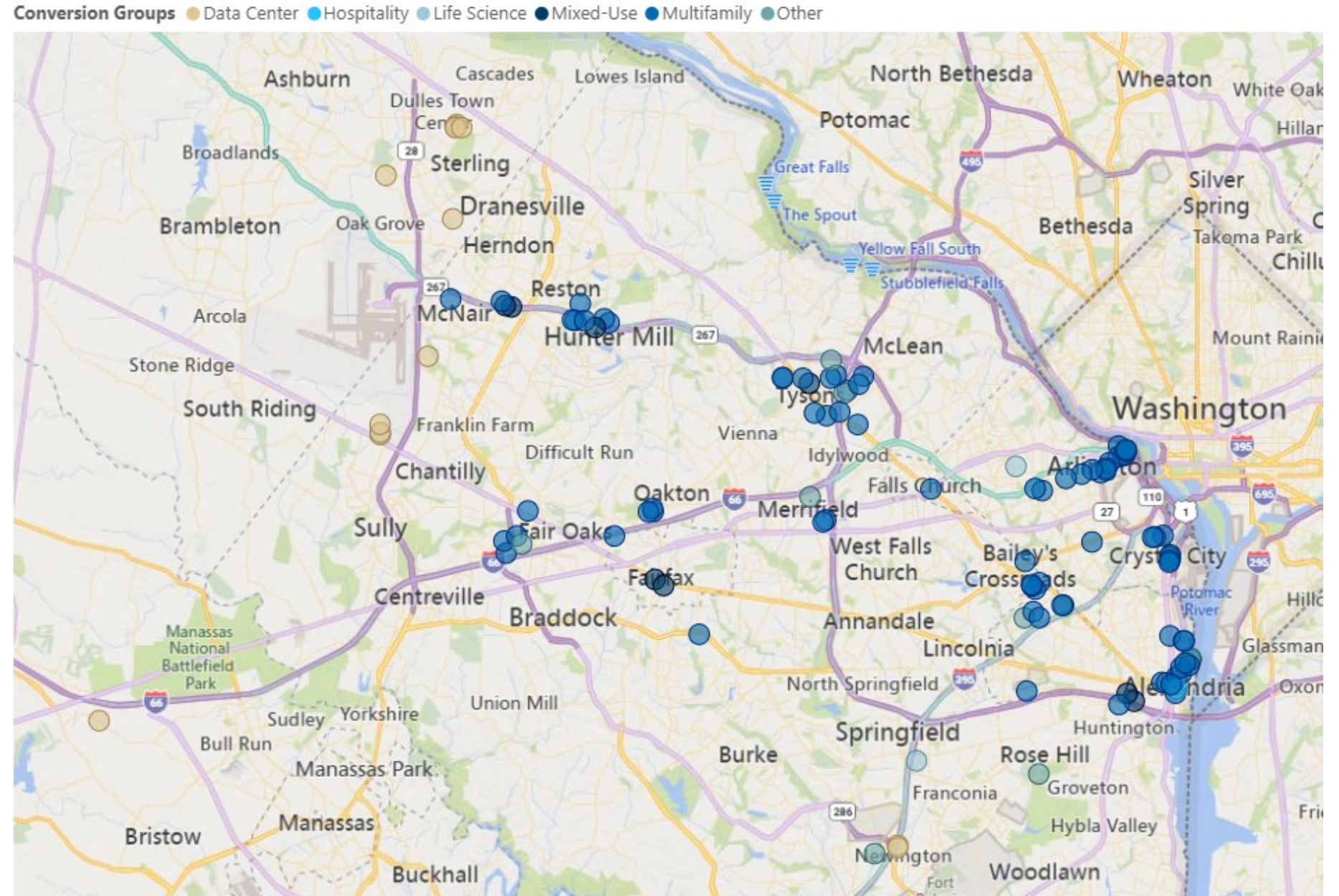
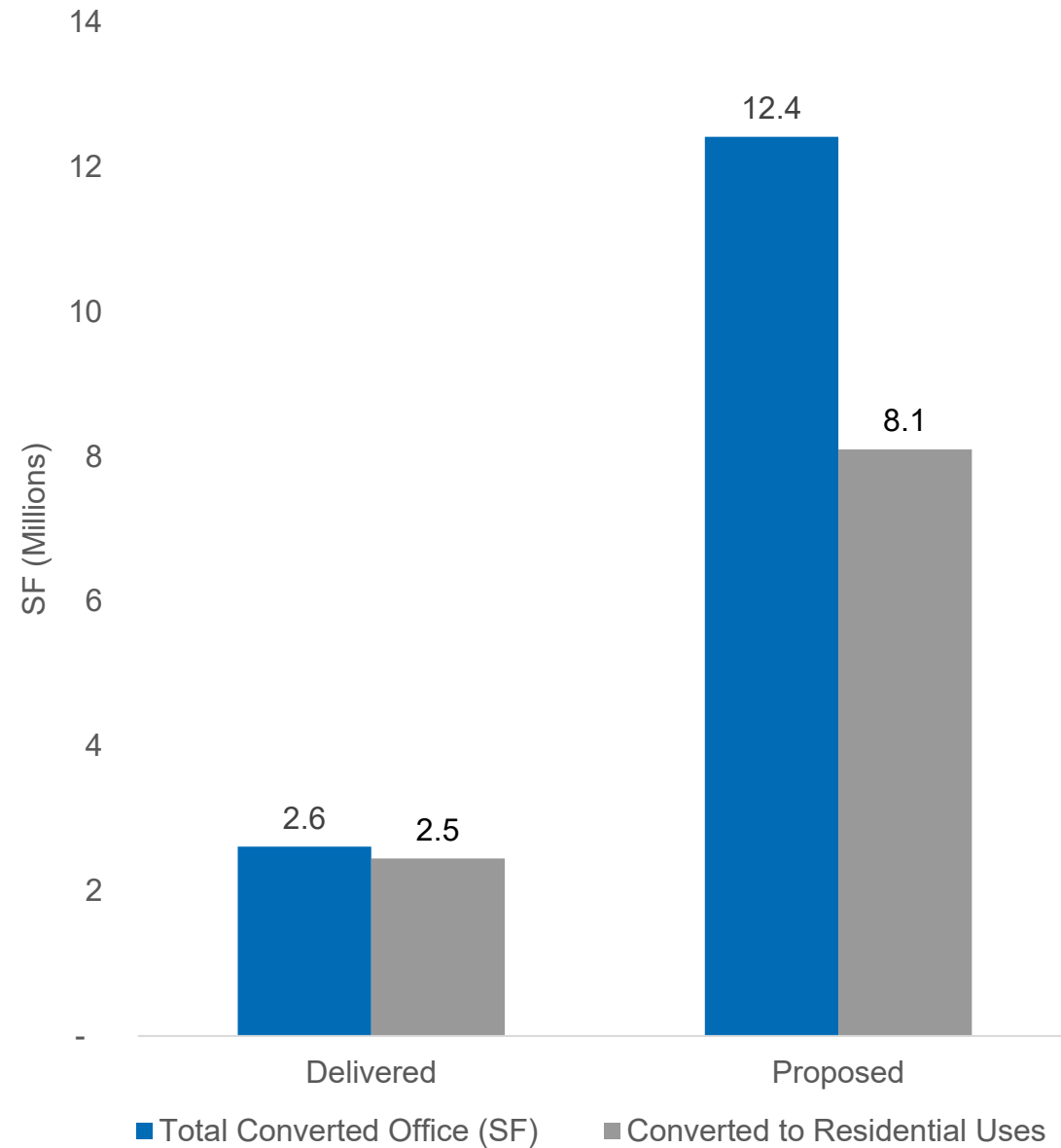


Source: Newmark Research, CoStar

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 12.4 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 8.1 MSF of office space is proposed for residential 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.

Northern Virginia Office Conversions Delivered or Proposed After 2020

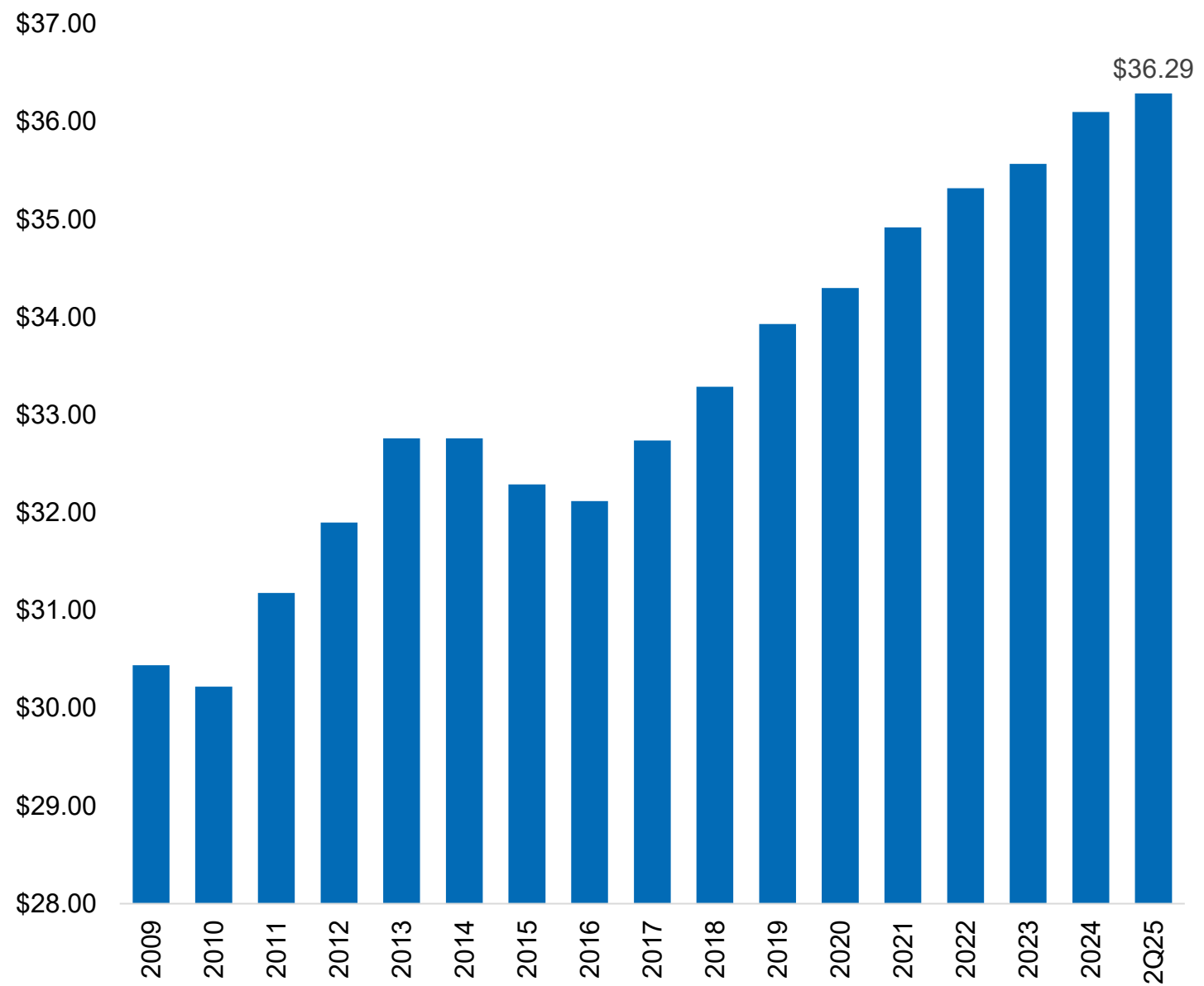


Source: Newmark Research.

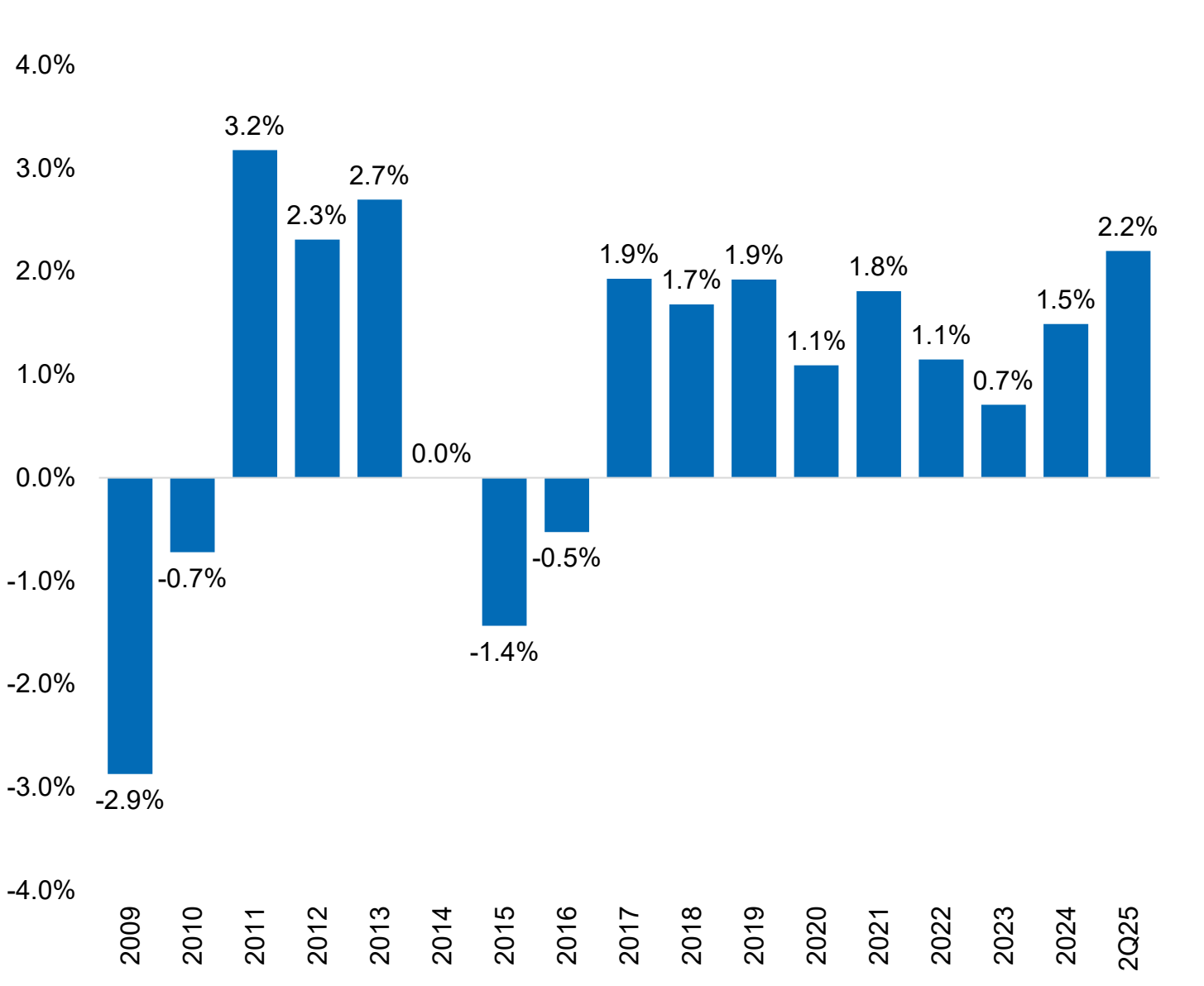
Asking Rents Rise Despite Declining Tenant Demand and Increasing Vacancy

Northern Virginia office rents continue to show consistent growth over the past few years, despite a decline in demand. Rents have increased each year since 2016, growing by 13.0% overall during this period, or 1.4% annually. In Northern Virginia, rents averaged \$36.29 PSF as of the second quarter of 2025, an increase of 2.2% over the past 12 months.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

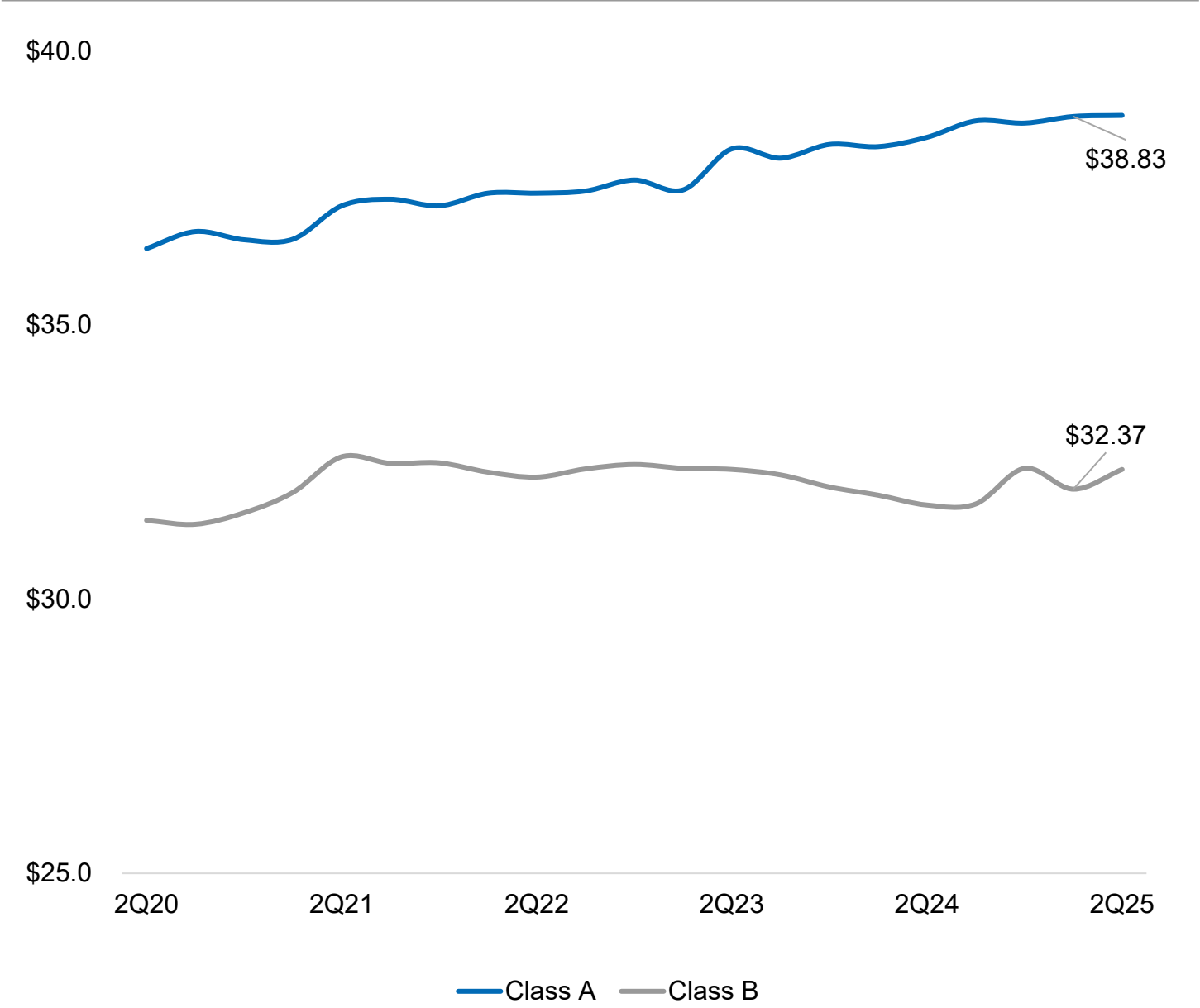


Source: Newmark Research, CoStar

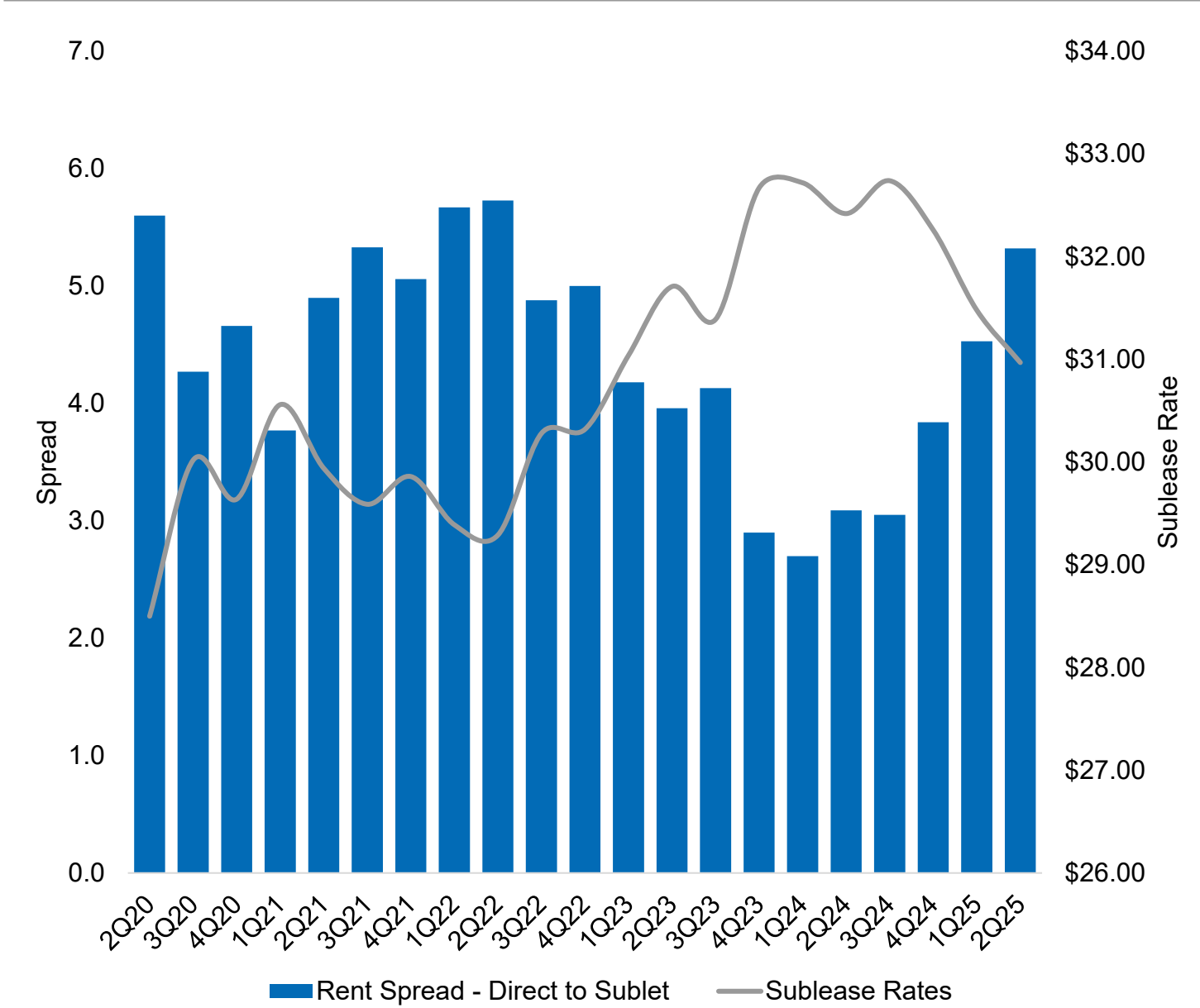
Class A and Class B Rent Spread Tightens Slightly

Class A rents increased slightly quarter-over-quarter and are 1.0% higher than a year ago, at \$38.83 PSF. Class B rents averaged \$32.37/SF during the second quarter, an increase of 2.1% over the past year. Overall, Class A rates achieve a premium of approximately 20% over Class B rents in Northern Virginia. The spread between market and sublease rates increased in each of the past four quarters and reached a three-year high during the second quarter of 2025 as sublease rates declined by 4.5% year-over-year..

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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