
3Q24

Northern Virginia Office Market Overview



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Market Observations

Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. However, there has been a significant increase in unemployment, narrowing the gap between the 3.7% regional unemployment rate and the 4.2% national unemployment rate. The regional 3.7% unemployment rate has increased above the 10-year average of 3.6%.
- Year-over-year, job gains were most pronounced in Other Services, posting a gain of 3.3%. Furthermore, the Manufacturing sector also experienced notable job gains, increasing 3.3% year-over-year. The office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced job losses over the past year, however, helping to account for continued limited demand for office space.
- While some office-using sectors experienced a decline in employment over the past year, jobs in the office-using sectors remain at a level that is 2.6% higher than four years ago—just prior to the pandemic—and 6.2% higher than the pandemic-induced employment trough in May 2020.

Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. However, owner-user sales and conversion opportunities are propping up demand in the region’s capital markets.
- There were two notable sales during the third quarter. The first being Potomac Tower at 1001 19th Street North in Arlington which sold from Brookfield Asset Management to Venture Global LNG for approximately \$143 Million, or \$592 PSF at a 7.3% cap rate. Venture Global LNG occupies roughly 40% of the 100% occupied 240,000 SF property and it will remain multi-tenanted. The other notable sale in the third quarter was the portfolio sale of Trinity Center I, II, III, and IV from Spear Street Capital to Finmarc Management. The four buildings have a combined square footage of 516,851 and sold for a total of \$39.4 million or \$76 dollars PSF.

Leasing Market Fundamentals

- Net absorption for the region totaled negative 714,000 square feet during Q3 2024, with the negative absorption spread out among many submarkets. Overall vacancy expanded to 23.1%, up 70 bps quarter-over-quarter and 230 bps year-over-year. Availability also expanded, ending Q3 2024 at 27.4%, an increase of 160 bps quarter-over-quarter and 120 bps year-over-year.
- Major second-quarter transactions were spread throughout the region, with Bechtel Corporation renewing in Reston, CACi renewing in Rt. 28 South, and Cvent renewing in Tysons Corner alongside Alarm.com. Furthermore, renewals were a theme of Q3 2024, with the four largest deals being lease renewals.
- Rents have remained relatively unchanged in 2024, ending Q3 2024 at \$35.47, an increase of 0.1% since the end of 2023.
- After two deliveries totaling 385,000 SF during the quarter, the office construction pipeline ended Q3 2024 at one property totaling 222,000 SF.

Outlook

- Spec suite demand continues to be a major driver in leasing activity for smaller spaces in the region, while lease renewals dominate the leasing activity for larger spaces. In addition, a restrained office pipeline should help limit rising vacancies.
- Fewer landlords have capital for concessions, which have been a major driver in attracting tenants over the past several years. The pool of landlords that can pay for tenant improvements is shrinking. There are fewer owners offering trophy office space, fostering an unusual landlord-favorable environment for the highest quality space. Meanwhile, conditions continue to soften in Class B and C assets.
- Lenders have begun to move forward with loan sales or lender assisted sales, allowing for troubled properties to be recapitalized and obsolete buildings to be demolished/converted.

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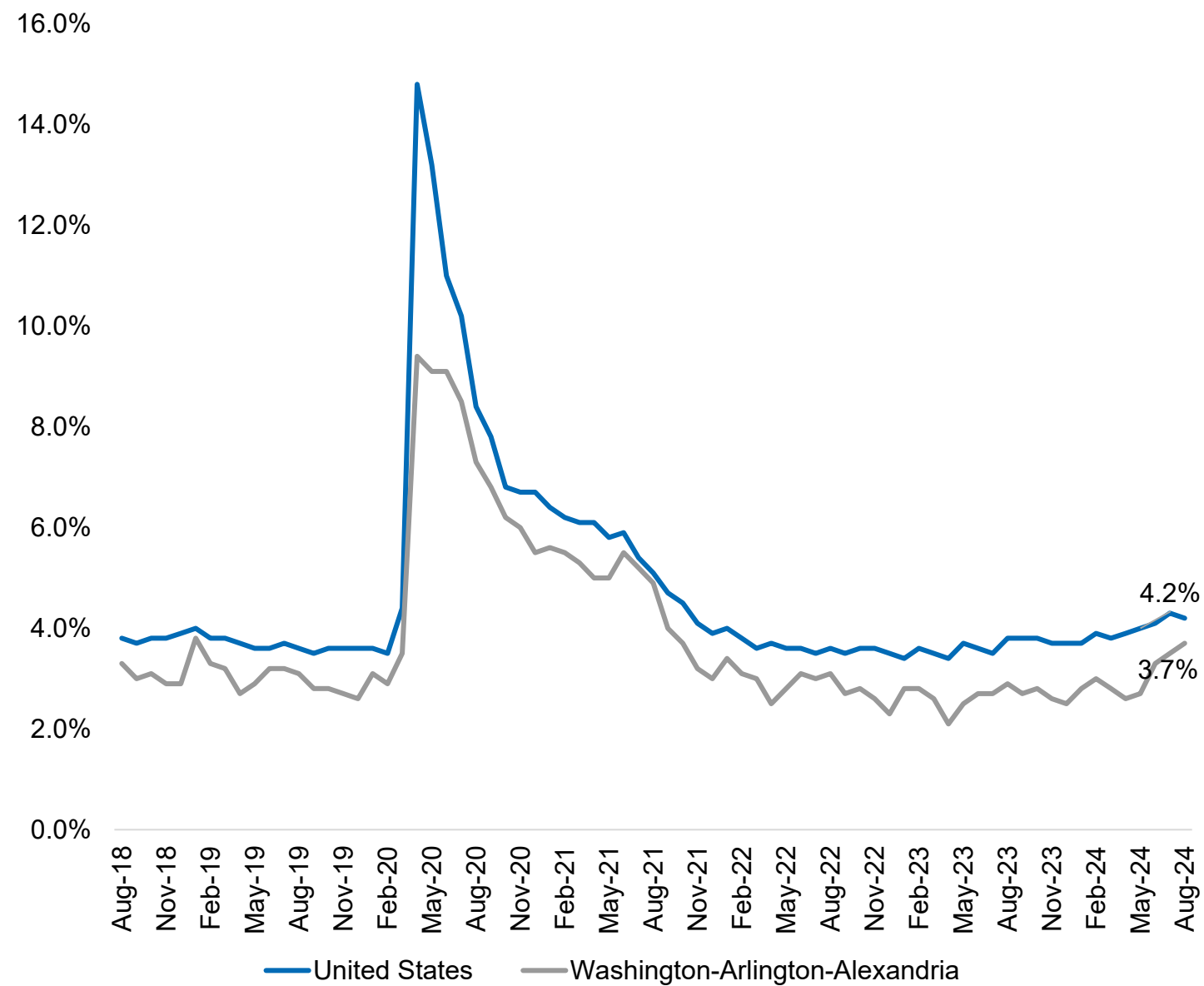
Economy



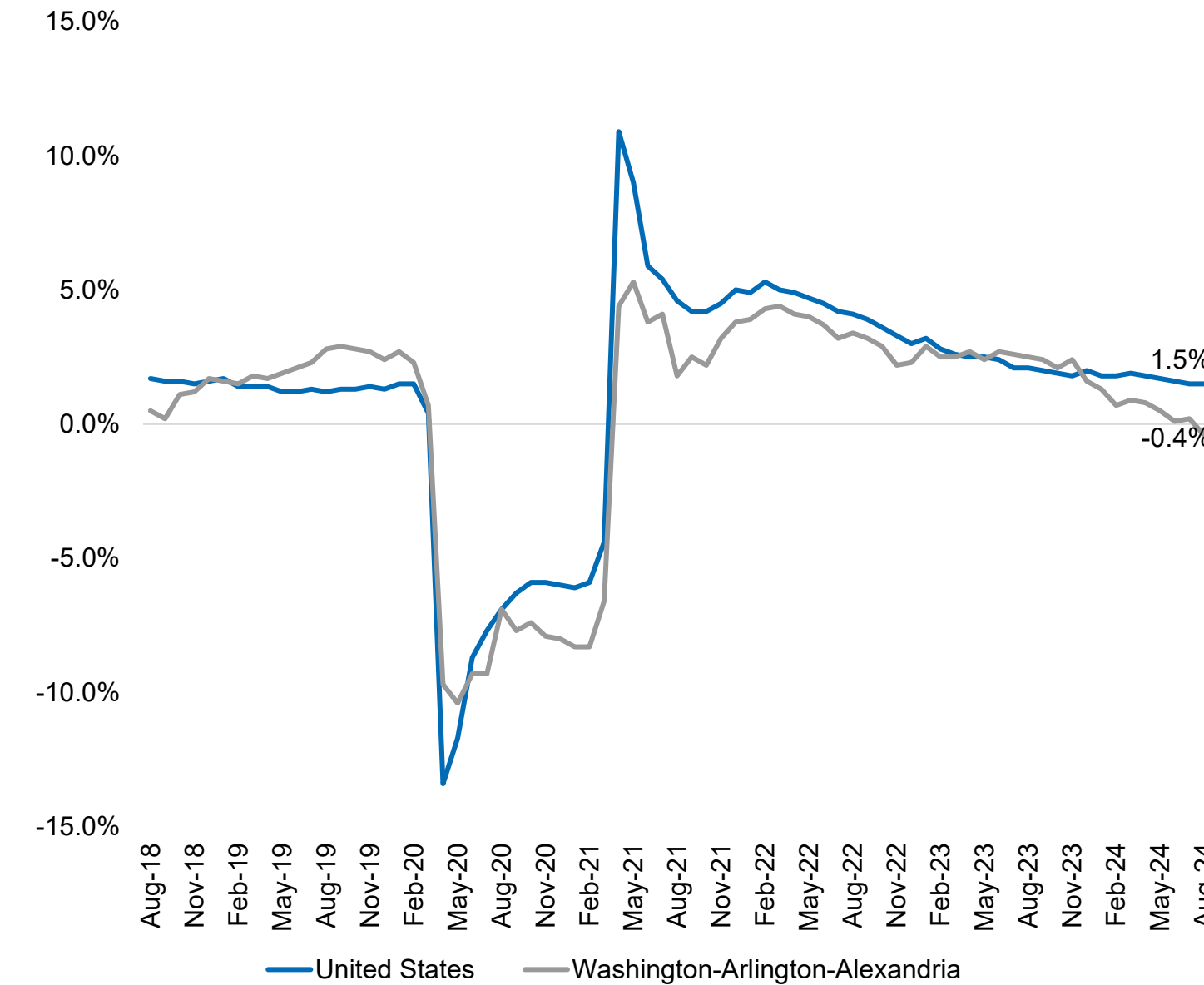
Metro Employment Job Growth Enters Negative Territory

The region's labor market is very tight, with unemployment 50 basis points below the national average. However, it is showing signs of loosening as the spread between the regional and national labor market decreasing 70 basis points quarter-over-quarter. National job growth has begun to slow, but nonetheless remains positive. Regional job growth has dipped to -0.4% year-over-year.

Unemployment Rate, Non-Seasonally Adjusted



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

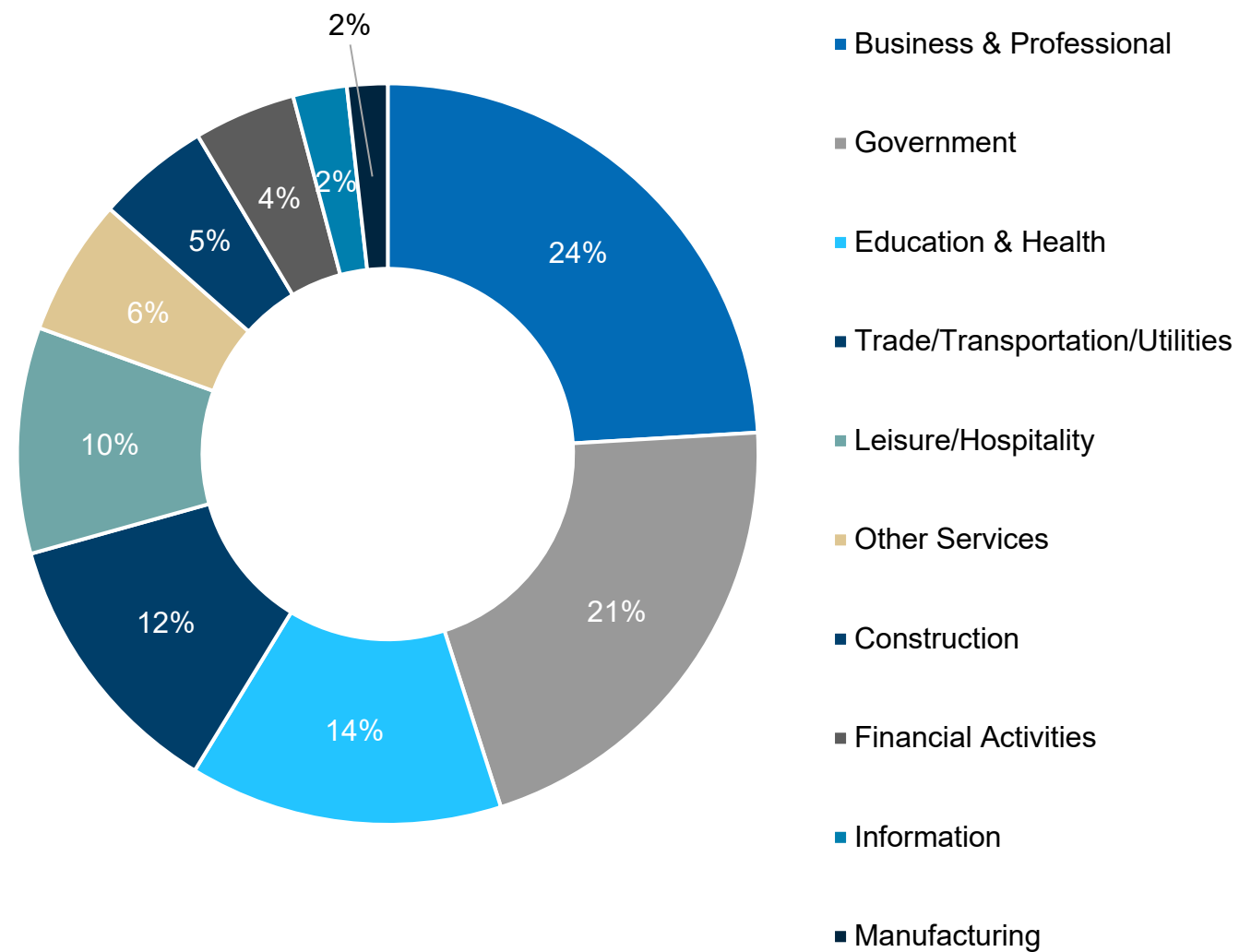


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

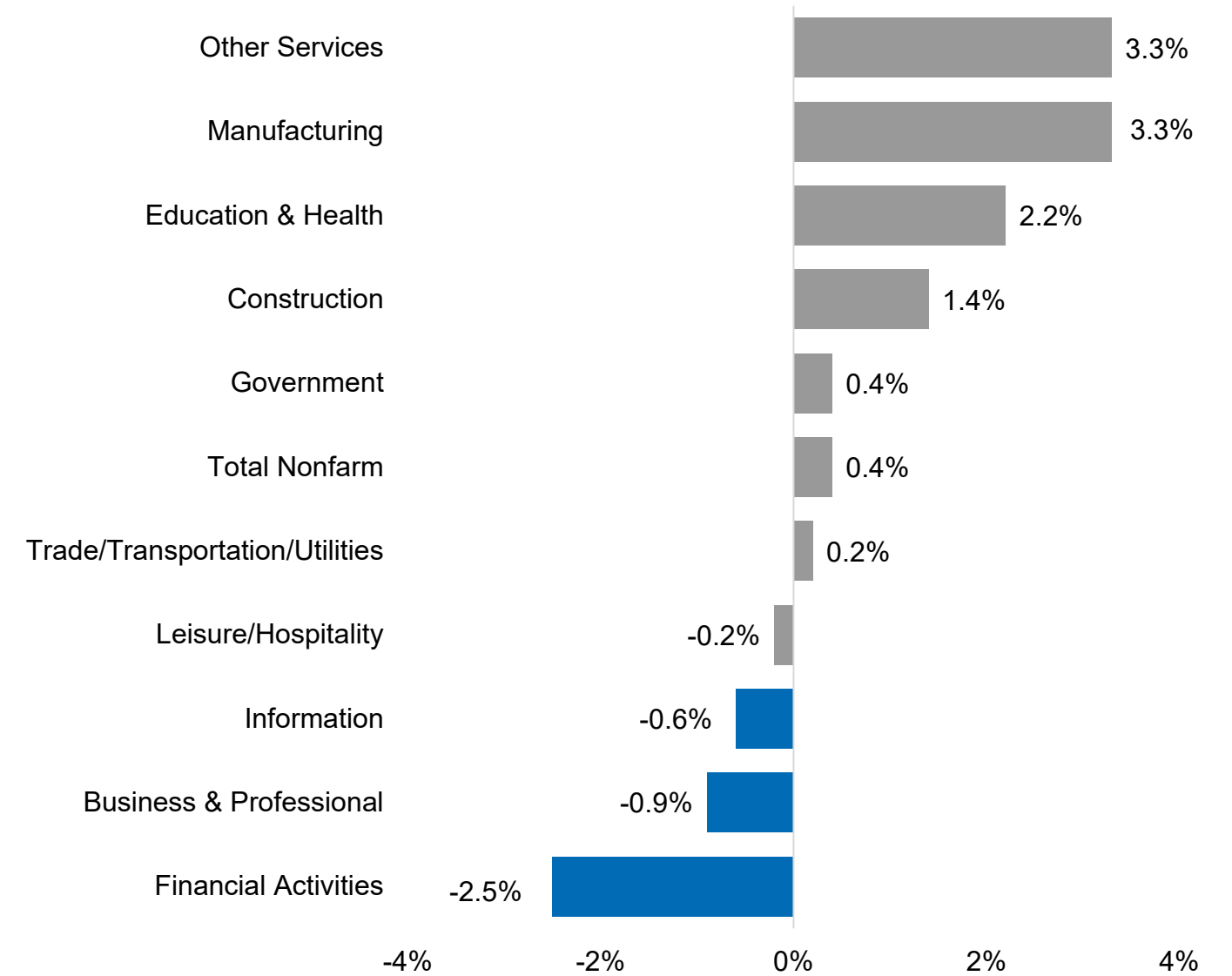
Job Growth Driven by Other Services, Manufacturing, and Education & Health

Education, Health, and Government propped up job growth in the region, leading to total nonfarm employment growth of 0.9%. Despite this, office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced some job losses over the past year, contributing to declining demand for office space.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

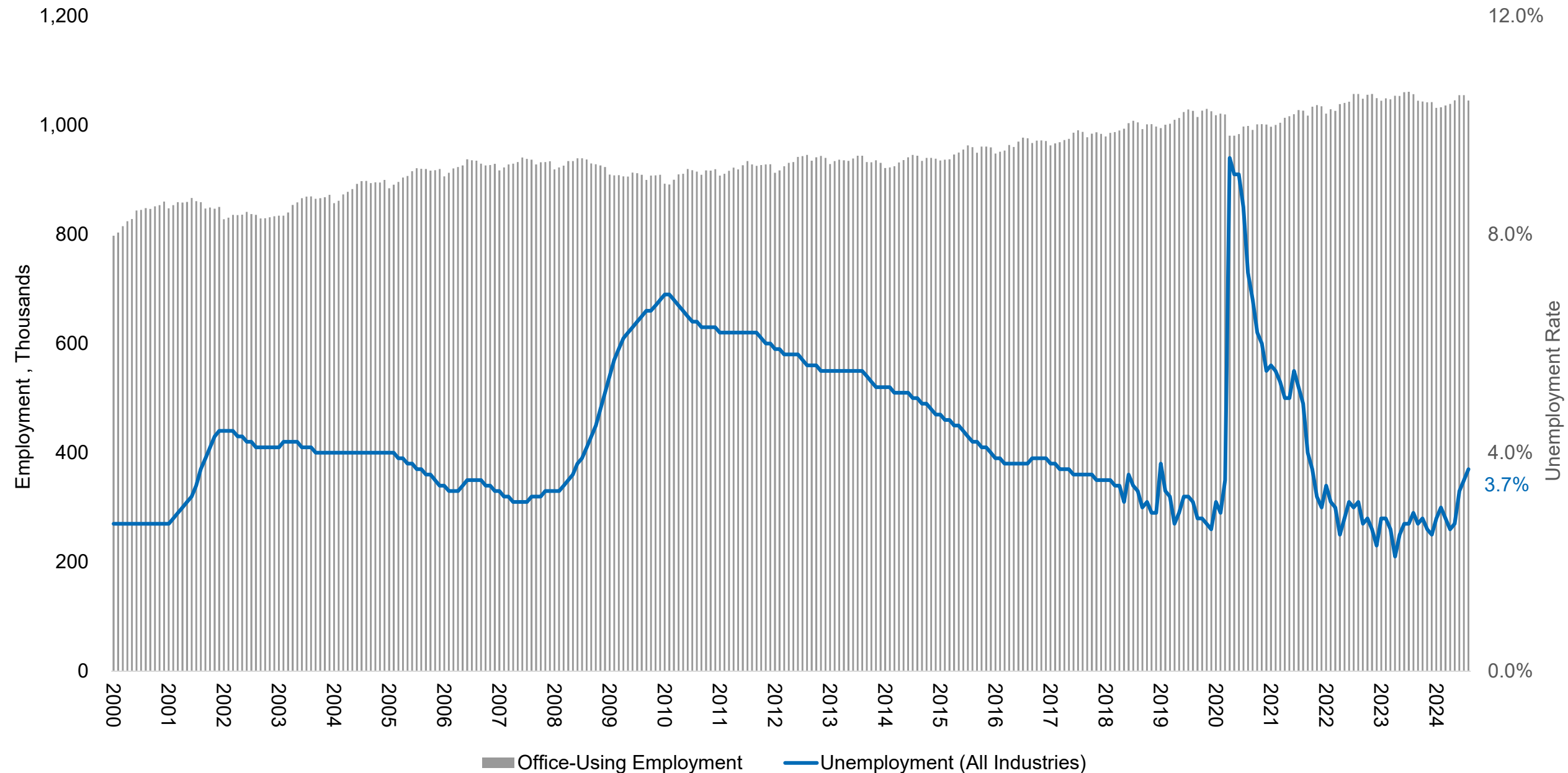


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

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 2.6% higher than four years ago—just before the pandemic—and 6.2% higher than the pandemic-induced employment trough in May 2020.

Office-Using Employment* and Unemployment Across All Industries



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

Note: August 2024 data is preliminary.

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

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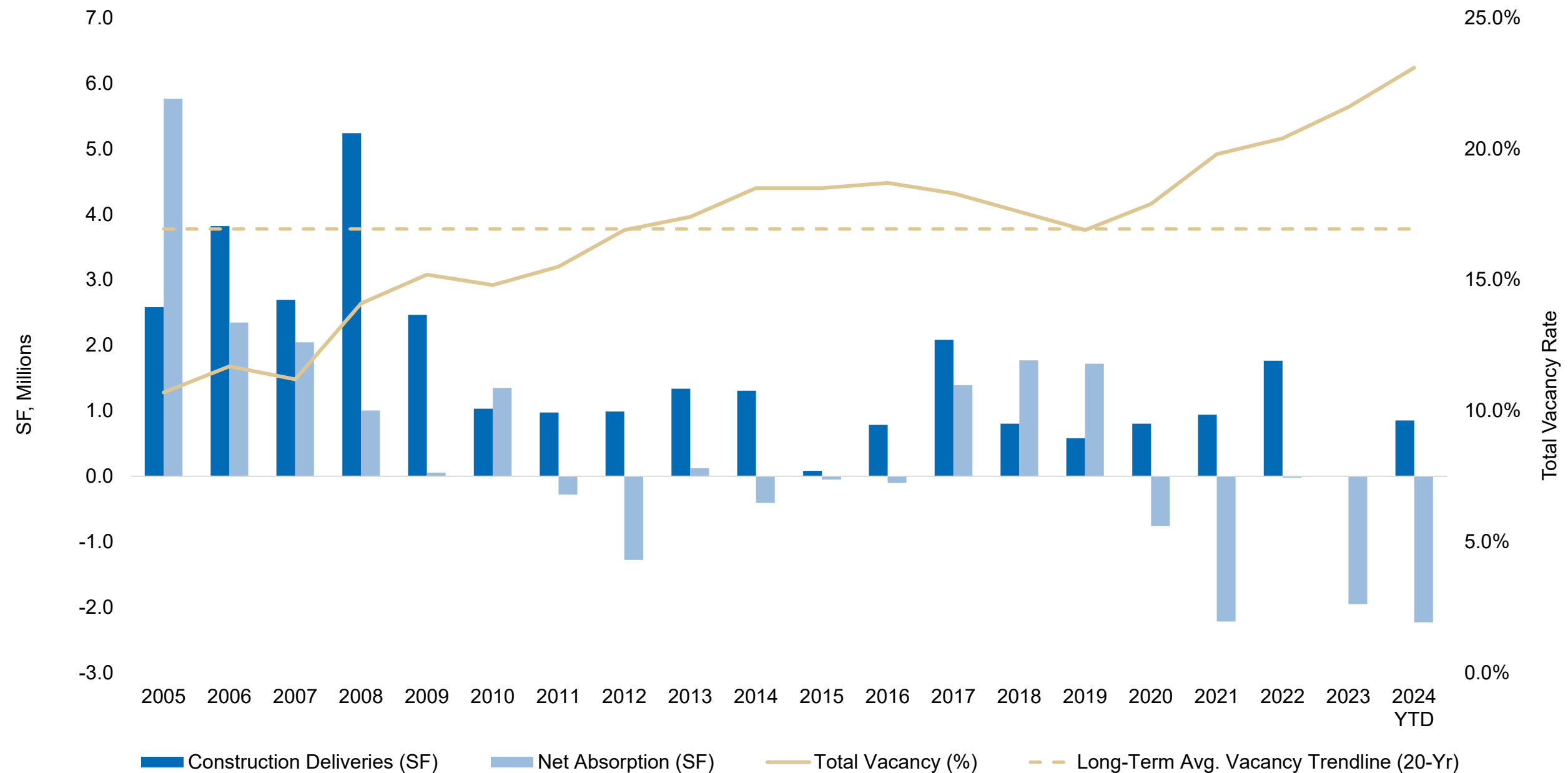
Leasing Market Fundamentals



Market Continues to See Vacancies Rise Alongside a Slowdown in Development

Northern Virginia's vacancy rate has risen 70 basis points during the third quarter of 2024, ending at 23.1%. Additionally, Northern Virginia experienced roughly 700,000 SF of negative absorption during 3Q24. This is after the market experienced almost 1.5 MSF of negative net absorption during the first half of the year. 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

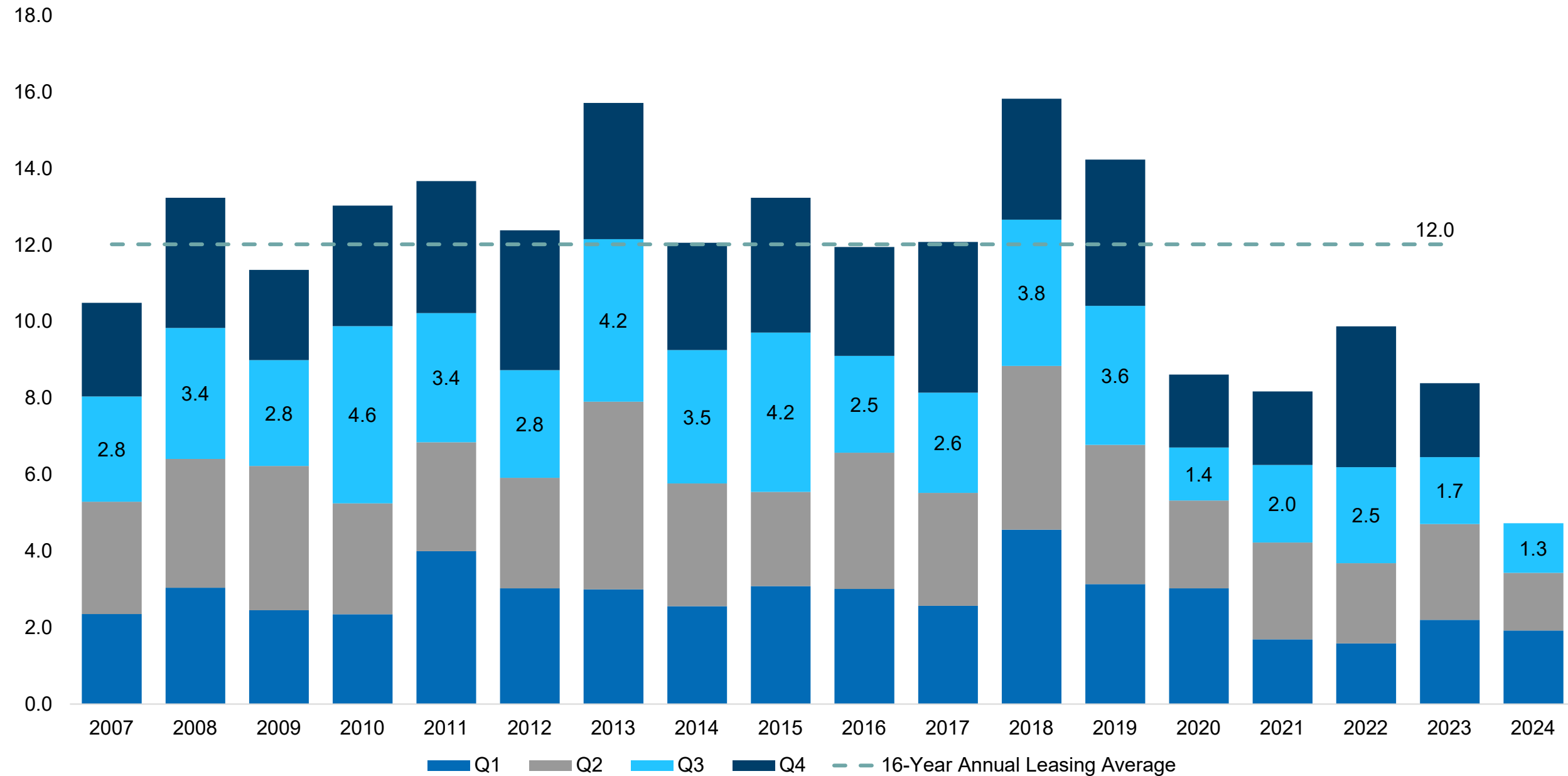


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Leasing Activity Historically Slow

Leasing activity during Q3 2024 totaled 1.3 million square feet, the lowest level of third-quarter activity the market has experienced during the past 16 years. Overall, throughout 2024, the market has seen 4.7 MSF of leasing activity, which is historically slow for the market.

Total Leasing Activity (msf)

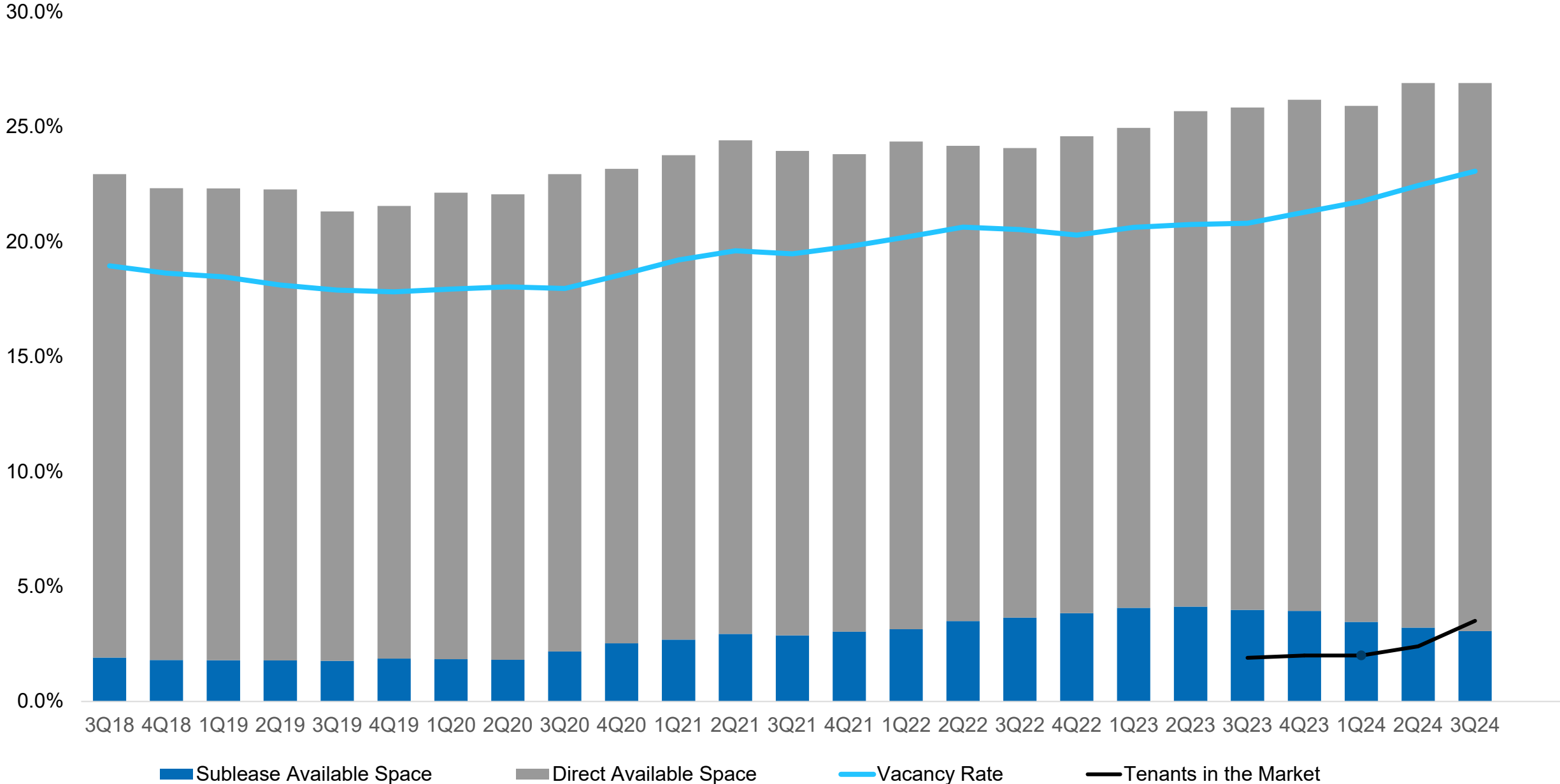


Source: Newmark Research, CoStar

Vacancy Reaches Historic Highs

Available office space ended Q3 2024 at 26.9%, a decrease of 50 bps quarter-over-quarter. Over the past six years, the direct availability rate has averaged 21.1% while the sublease availability rate has averaged 2.8%. While the Q3 2024 availability rates of 23.8% for direct space and 3.1% for sublease space are well above the long-term average, sublease availability appears to have peaked for this cycle, having steadily declined from its peak of 4.1% in the second quarter of 2023. The vacancy rate has followed the same path as availability, ending Q3 2024 at a historical high of 23.1%, up 70 bps quarter-over-quarter and 230 bps year-over-year.

Available Space and Tenant Demand as Percent of Overall Market

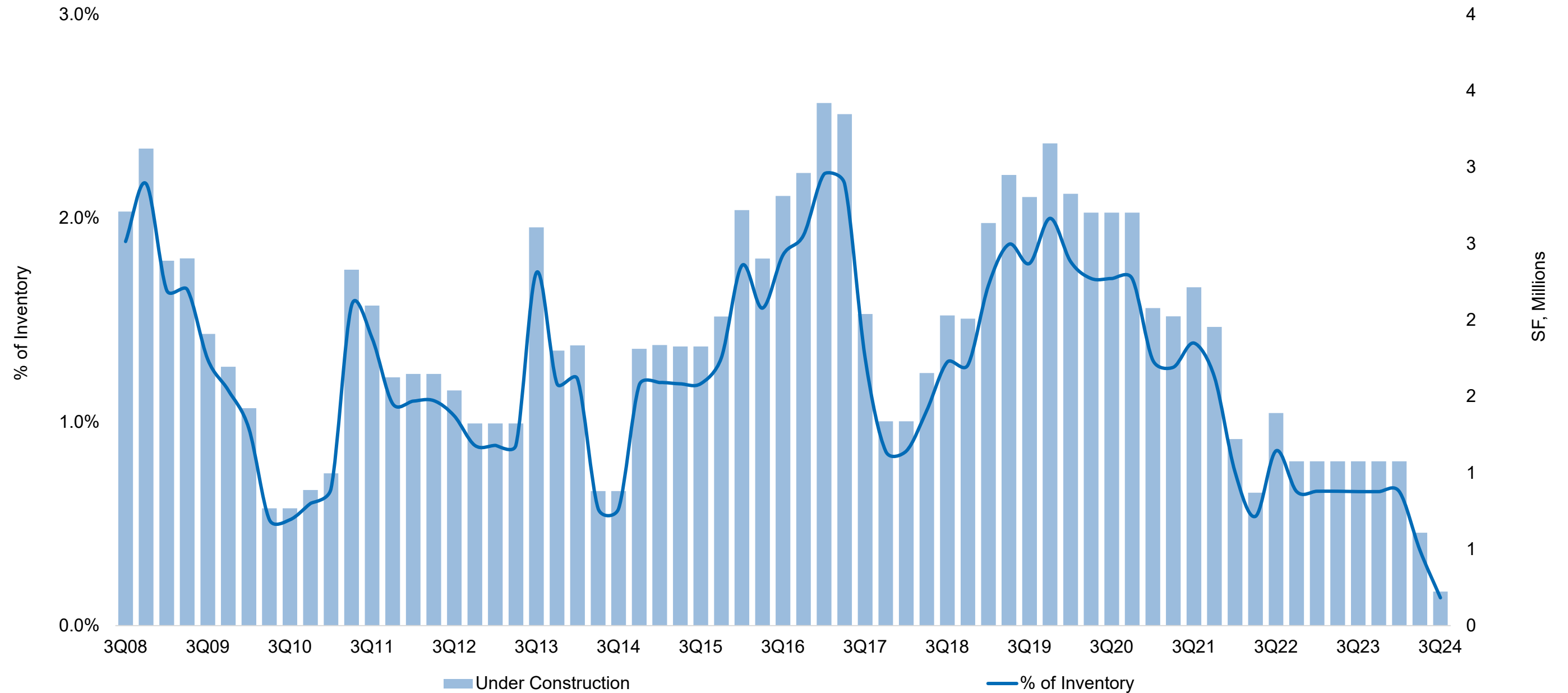


Source: Newmark Research, CoStar

Despite Recent Deliveries, Development at Historic Lows

Northern Virginia saw two properties totaling 385,000 SF deliver during Q3 2024. Despite this, the market's development pipeline remains historically low, with only one property totaling 222,000 SF under construction to end Q3 2024. A lack of new supply will help ease rising vacancy.

Office Under Construction and % of Inventory

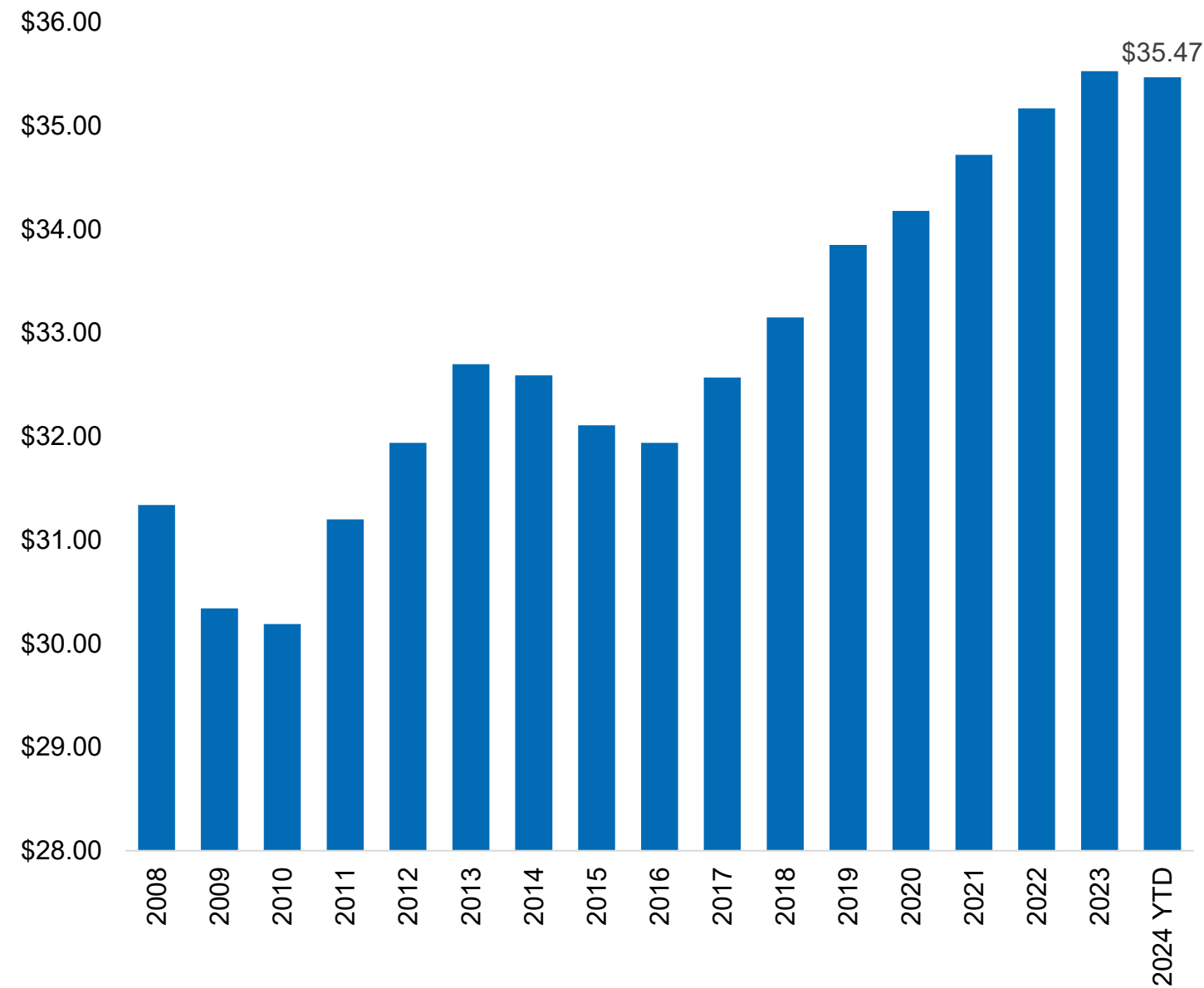


Source: Newmark Research, CoStar

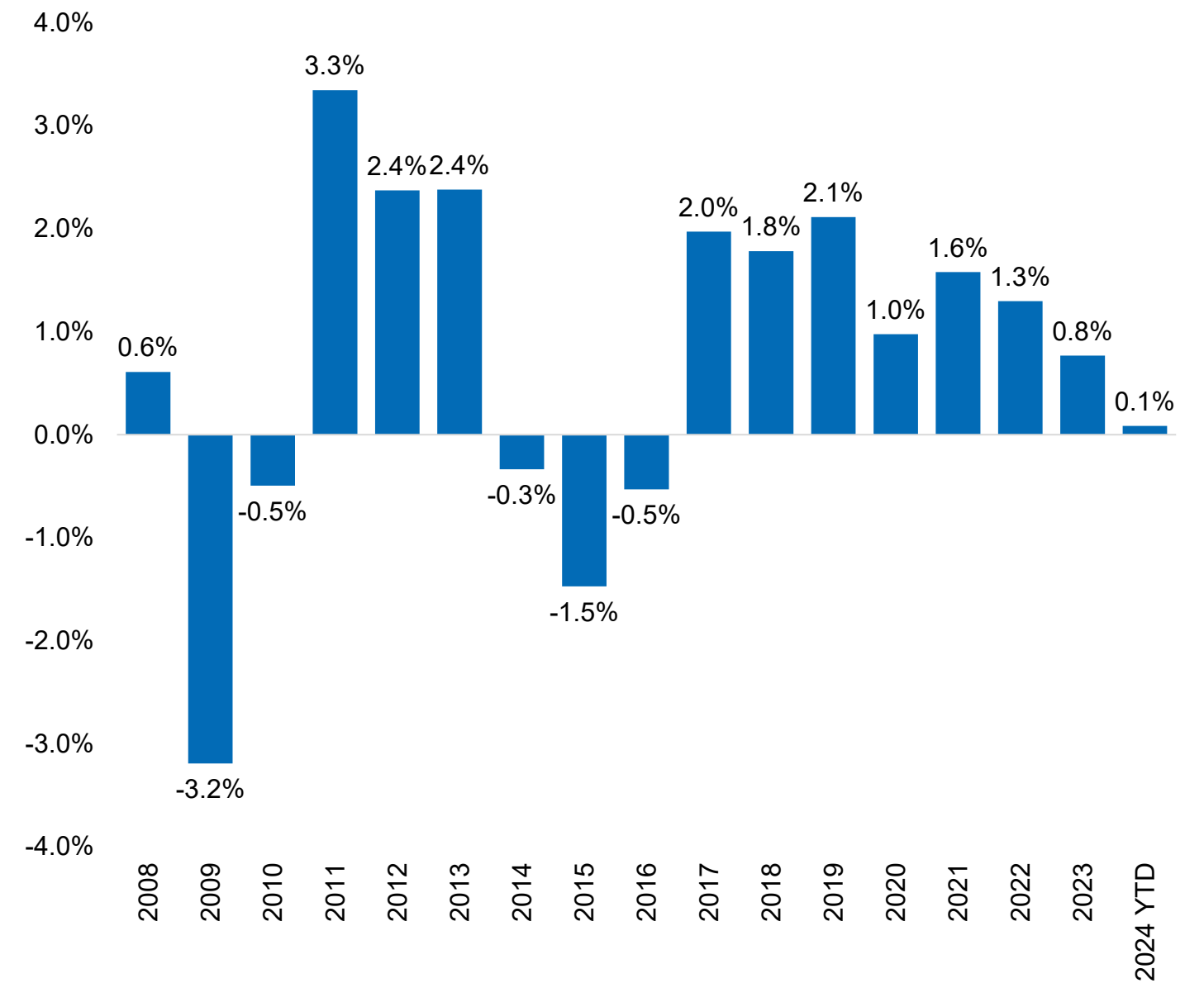
Asking Rents Decline Amid Continued Negative Demand

Northern Virginia office rents continue to show consistent growth over the past few years, while D.C. rents began declining in 2021. Rents ended Q3 2024 at \$35.47 PSF, an increase of 0.1% since the end of 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

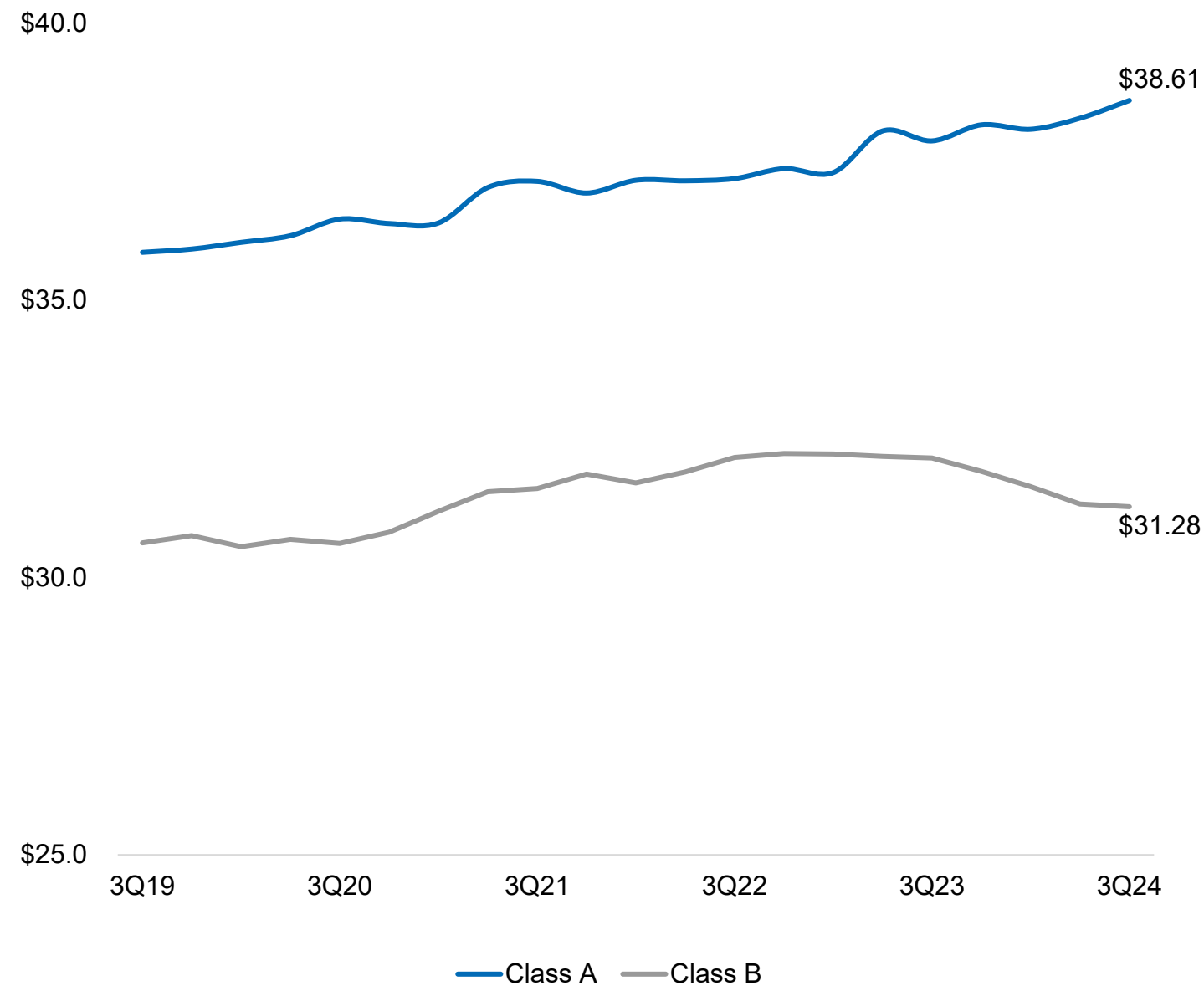


Source: Newmark Research, CoStar

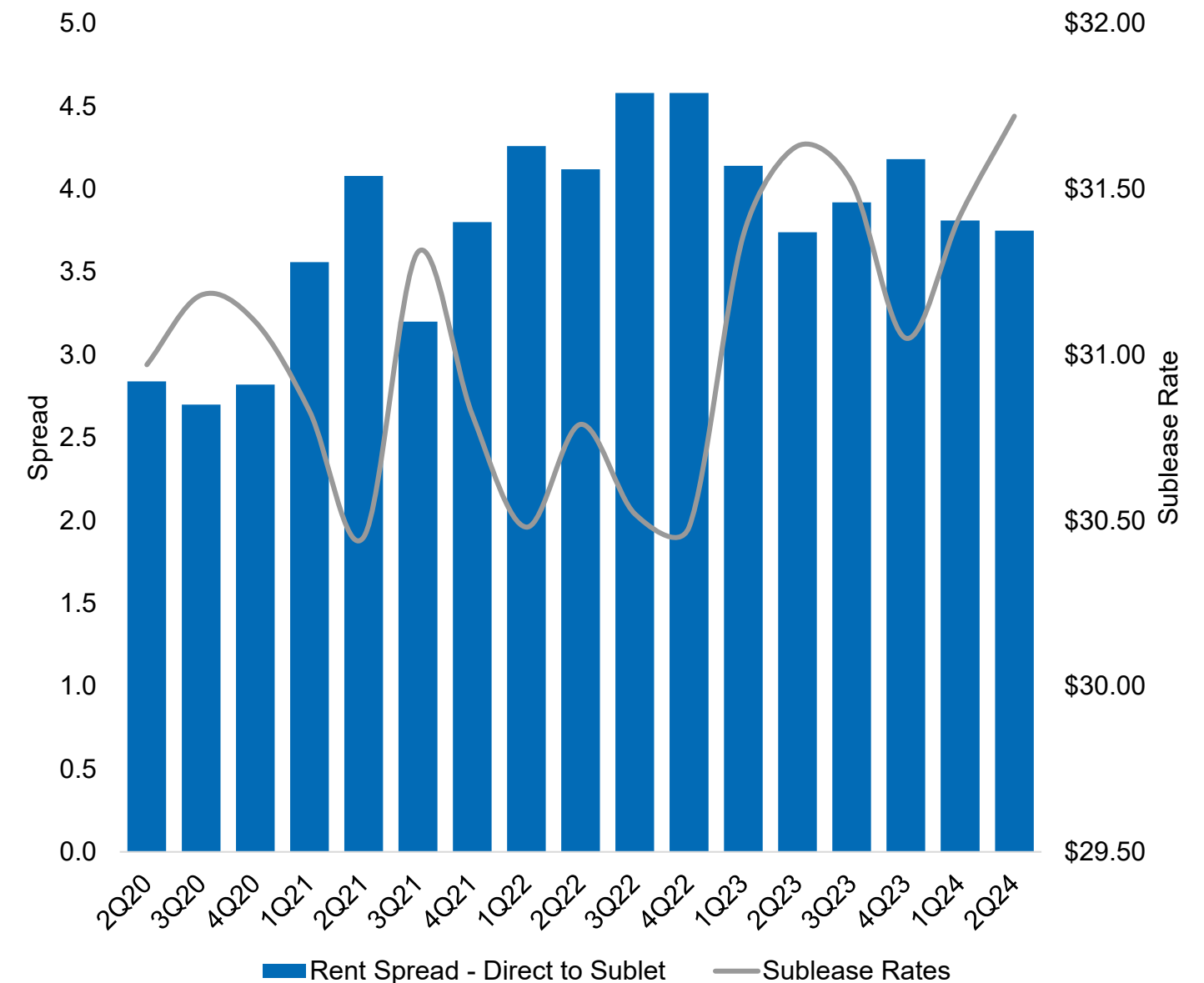
Market Experiencing Bifurcation Between Class A and Class B Rents

Class B rents largely contributed to overall rent declines in the market, while Class A rents showed positive movement. Class A rents ended Q3 2024 at \$38.61 PSF, an increase of 0.8% quarter-over-quarter, while Class B rents ended the quarter at \$31.28, a decrease of 0.16% quarter-over-quarter. This is indicative of the bifurcation of office user demand. Trophy and Class A space continue to outperform, while Class B and Class C rates will continue to drop or remain stagnant in the face of limited demand.

Class A and Class B Asking Rents



Sublease Rates



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	162,897,751	23.1%	26.9%	-714,250	-2,229,129	385,241	852,143	222,674	\$35.47
Class A	102,248,511	23.1%	27.9%	-612,045	-1,229,977	385,241	852,143	222,674	\$38.61
Class B	41,975,664	24.9%	27.2%	-151,680	-706,534	0	0	0	\$31.28
Class C	18,673,576	19.1%	20.6%	49,475	-292,618	0	0	0	\$29.82

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	27.7%	32.3%	-43,857	-203,231	0	191,034	0	\$41.85
Clarendon/Courthouse	4,389,562	35.8%	44.6%	-74,438	-67,781	0	0	0	\$43.01
Crystal City/Pentagon City	11,778,299	25.9%	29.6%	--58,966	-264,643	0	0	0	\$39.06
Eisenhower Avenue	1,313,328	52.9%	53.1%	-17,842	-20,603	0	0	0	\$29.57
Fairfax Center	9,674,993	22.3%	27.7%	71,093	14,023	0	0	0	\$28.91
Gainesville	247,772	7.9%	8.9%	0	1,872	0	0	0	\$24.67
Herndon	10,556,684	30.2%	37.2%	-117,626	-302,431	0	0	0	\$32.41
I-395 Corridor - Alexandria	1,784,916	22.1%	22.3%	8,705	-87,649	0	0	0	\$30.57
I-395 Corridor - Arlington	1,595,158	9.5%	13.6%	-3,214	-2,348	0	0	0	\$33.76
I-395 Corridor - Fairfax	4,195,444	34.3%	33.4%	-21,302	-85,352	0	0	0	\$30.34

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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	6.9%	8.7%	-13,339	-32,587	0	0	0	\$24.72
Merrifield	8,217,732	15.3%	17.0%	51,886	-5,992	0	0	0	\$31.62
Old Town Alexandria	10,964,095	18.3%	28.7%	-101,715	-270,617	0	0	0	\$38.25
Reston	18,617,059	24.6%	28.0%	-51,182	-52,373	74,600	350,468	222,674	\$36.01
Rosslyn	8,456,598	24.0%	29.0%	-7,466	-143,631	0	0	0	\$42.94
Rt. 28 North	5,778,791	15.4%	15.3%	-80,659	-143,997	0	0	0	\$26.36
Rt. 28 South	12,814,652	15.3%	18.6%	-166,496	154,079	0	0	0	\$29.14
Rt. 7 Corridor	5,162,290	12.2%	14.3%	19,835	23,912	0	0	0	\$29.49
Springfield	4,824,339	21.0%	23.3%	42,575	6,891	0	0	0	\$29.48
Stafford County	847,068	18.5%	16.4%	20,086	30,368	0	0	0	\$29.90
Tysons Corner	27,609,070	26.5%	30.2%	-229,335	-797,010	0	0	0	\$38.95
Virginia Square	1,340,962	43.0%	19.4%	24,312	-6,375	310,641	310,641	0	\$43.24
Western Loudoun County	795,188	2.5%	8.5%	34,812	33,468	0	0	0	\$32.02
Woodbridge	1,294,344	9.2%	8.7%	-177	-14,821	0	0	0	\$25.02

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