3Q25

Northern Virginia Office Market Overview

Market Observations

Economy

- The region's labor market has slowed in recent months due to shifting federal government policy. August's 4.3% unemployment rate exceeds the region's ten-year historical average of 3.8%, expanding 30 bps quarter-over-quarter and 90 bps year-over-year. The Washington, DC metro's unemployment rate reached equilibrium with the national rate.
- Construction alongside Education & Health propped up job growth in the region with an 8.4% 12-month increase and a 2.4% 12-month increase, respectively, though total nonfarm employment growth was negative at -0.3%. The Leisure/Hospitality and Financial Activities sector also experienced 12-month growth of 0.6%, while the Information and Business & Professional sectors saw 12-month declines of 1.1% and 2.3%, respectively.
- The number of office jobs exceeds pre-pandemic levels but are lower year-over-year. Office-using jobs in the region are currently 4.2% higher than five years ago, but 1.8% lower than in August 2024, due in part to DOGE actions and their impact on the regional workforce.

Major Transactions

- A notable deal from the third quarter of 2025 was the sale of Willow Oaks Medical Center, located at 8260 and 8280 Willow Oaks Corporate Drive within the Merrifield submarket. The 400,000-square-foot, two-building portfolio sale was facilitated by the Newmark investment Sales team. The properties were sold by Bridge Investment Group for $70.0 million, or $173/SF to Stockbridge Capital Partners, a first-time buyer in the Mid-Atlantic region.
- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. The 12-month average PSF of $164 is down from the five-year peak of $285 PSF in 3Q20. 12-month transaction volume ending at the third quarter of 2025 registered approximately $1.4 billion.

Leasing Market Fundamentals

- Net absorption for Northern Virginia totaled negative 20,883 square feet during the third quarter of 2025. Vacancy ended the quarter at 21.8%, even with last quarter and down 20 basis points year-over-year. Overall availability registered 22.4% as of 3Q25.
- The Reston submarket was the beneficiary of several notable large leases signed during the third quarter of 2025. Four of the five largest transactions occurred within the submarket and include Workday Inc. which will be backfilling former Meta space in Reston Town Center and NVR, which will relocate to the Oracle Building.
- Rents in Northern Virginia averaged $36.54 PSF as of the third quarter of 2025, an increase of 2.1% over the past 12 months.
- Northern Virginia is the only jurisdiction in the Washington metro area that has experienced a delivery in 2025, with 1880 Reston Row Plaza coming to market during 2Q25 The market's development pipeline remains historically low, with only two properties totaling 89,750 SF under construction as of 3Q25.

Outlook

- Proposed office-to-residential conversions total approximately 8.5 million square feet within Northern Virginia's inner suburbs including Alexandria, Arlington, and Tysons.
- Sensitive Compartmented Information Facility (SCIF) space remains in high demand, due to new contractor requirements from intelligence agencies. Fairfax and Loudoun County submarkets register some of the market's lowest vacancy rates because of this demand, as a result of tenant SCIF needs.
- AI companies are looking to lease office space in gateway markets as they grow, and the Washington metro area is no different. Though much of the office needs in the region center on government affairs and will potentially be located within the District, the impacts of AI are a trend to watch as near-term leasing demand may increase. Its implementation moving forward is likely to directly impact the office and industrial markets in the region.

TABLE OF CONTENTS

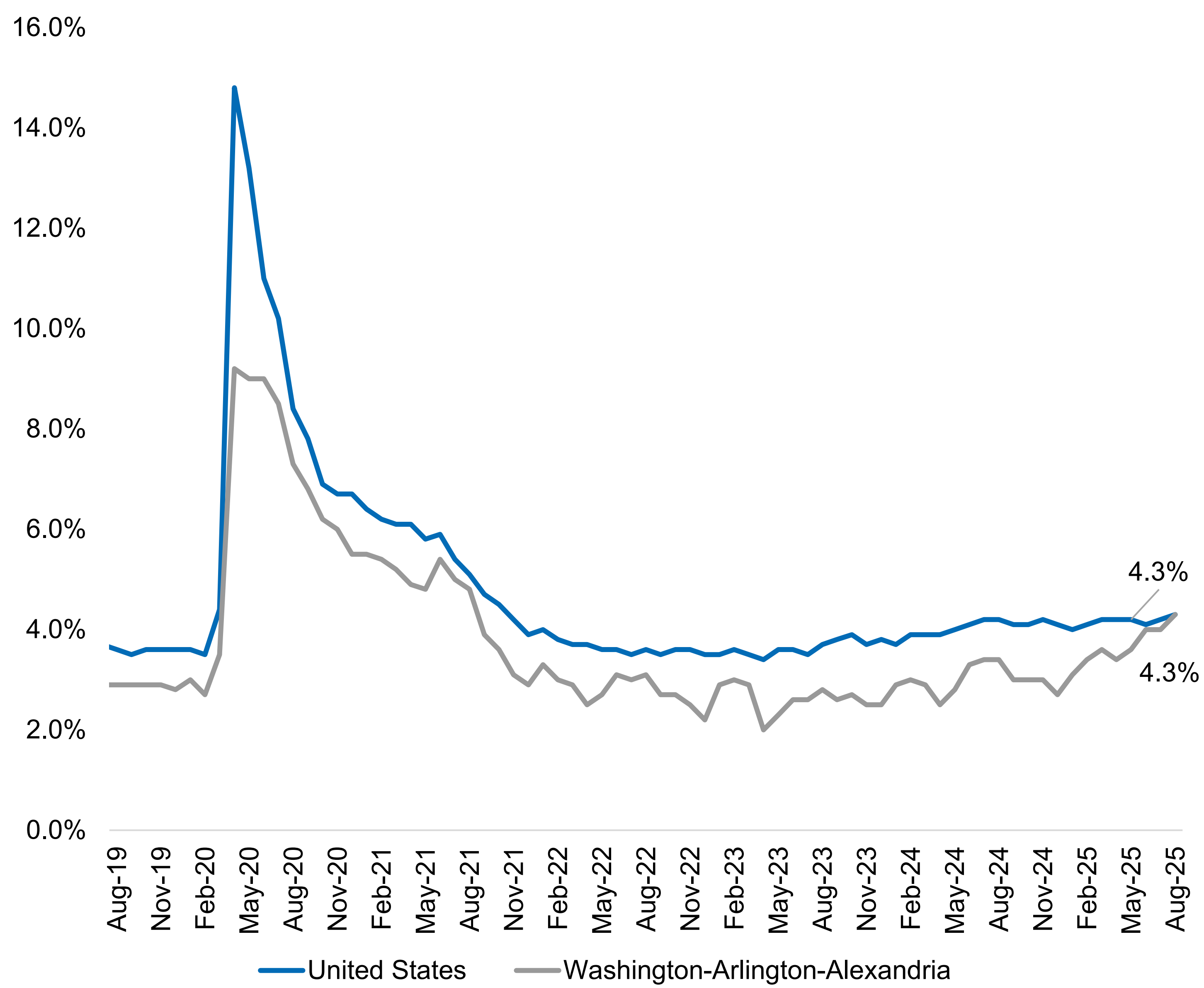
3Q25

Economy

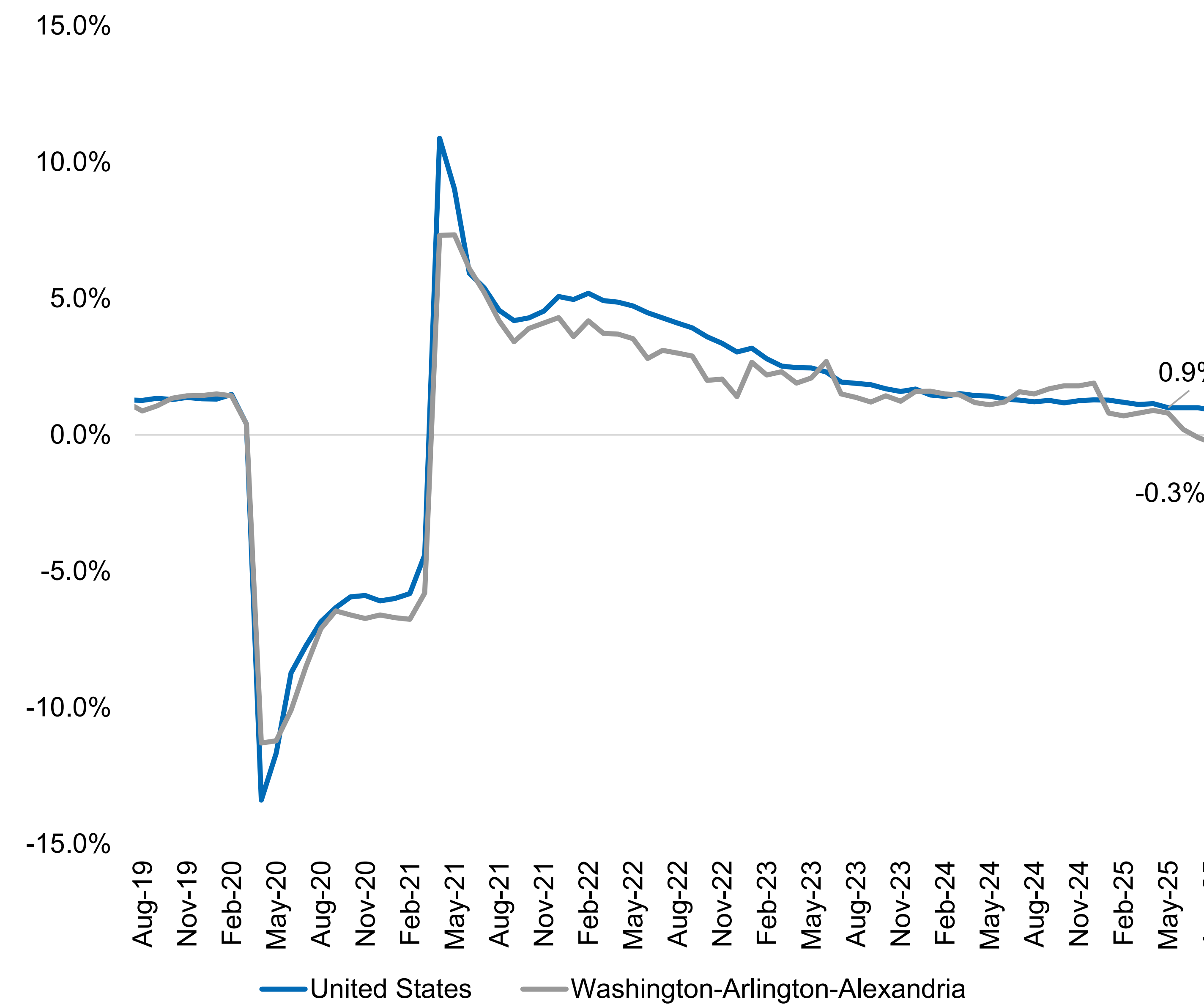
Metro Unemployment Rate Even With The National Average

Though the region's labor market remains tight, the metro's unemployment rate increased quarter-over-quarter and year-over-year, with unemployment now equal to the national average. As of August 2025, the region's unemployment rate is 4.3%, an increase of 90 bps compared with the same period last year. Regional nonfarm job growth dipped negative, with a -0.3% 12-month growth as of August.

Unemployment Rate, Seasonally Adjusted



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

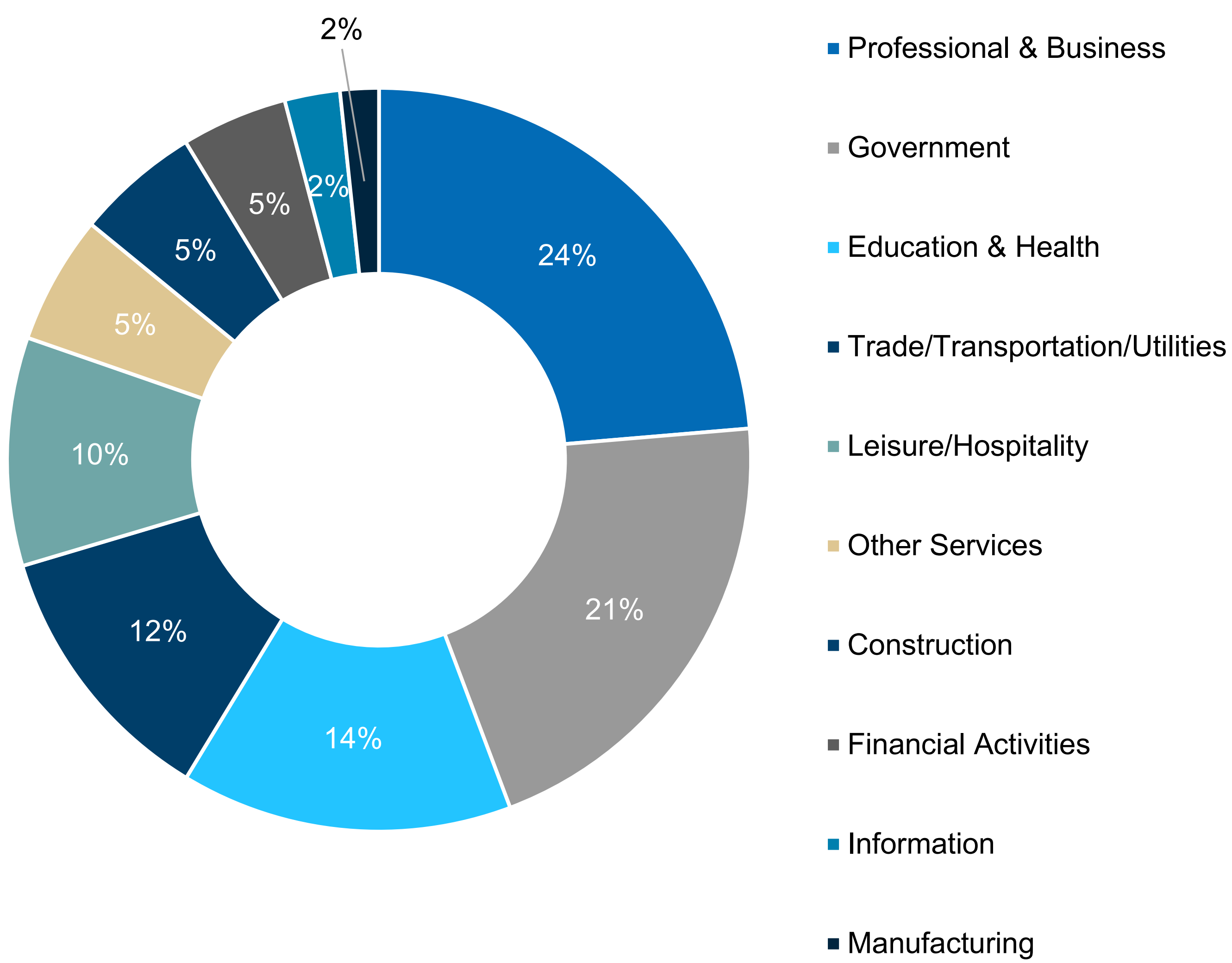


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

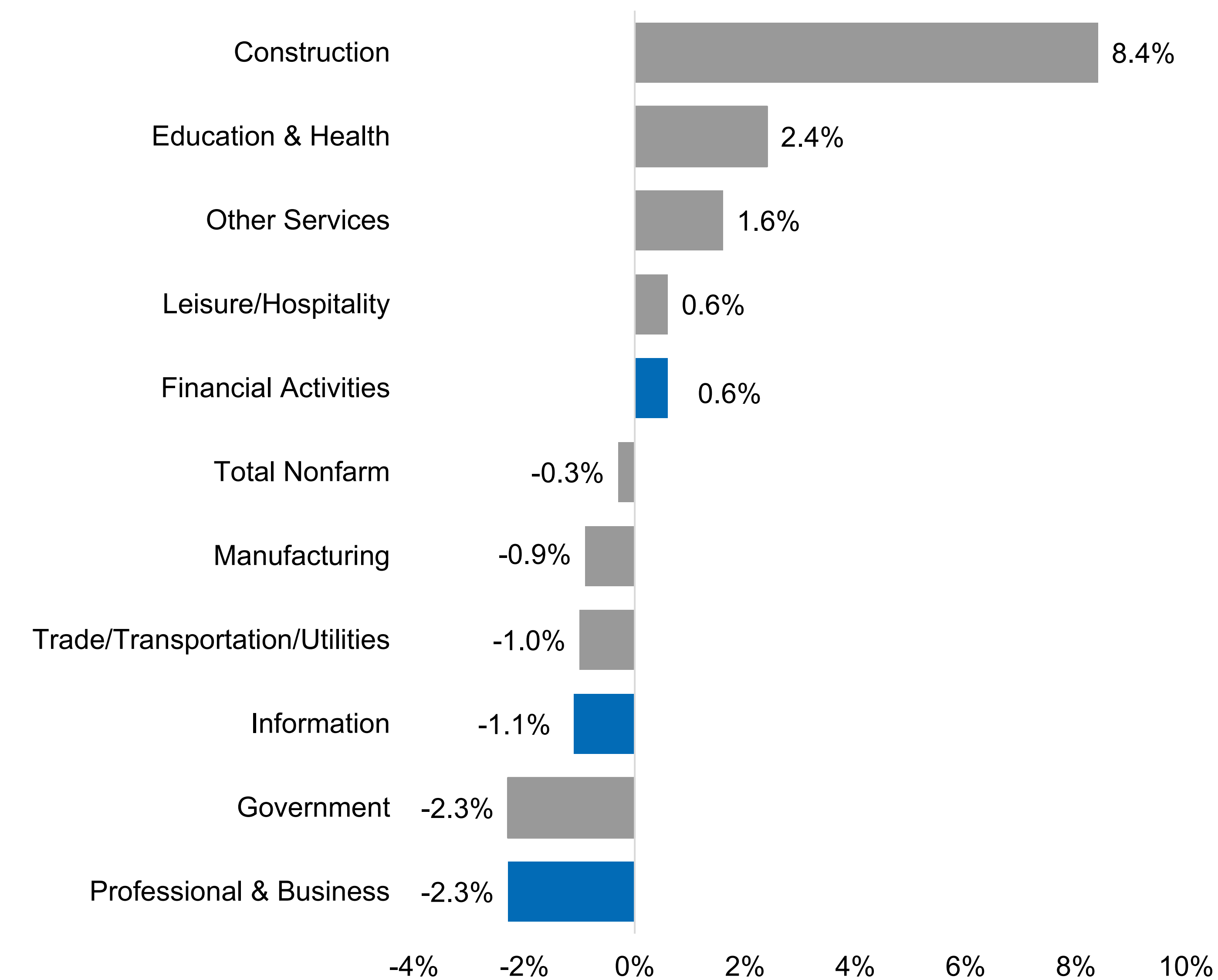
Job Growth Driven by Construction And Education & Health

Construction alongside Education & Health propped up job growth in the region with an 8.4% 12-month increase and a 2.4% 12-month increase, respectively, though total nonfarm employment growth was negative at -0.3%. The Leisure/Hospitality and Financial Activities sector also experienced 12-month growth of 0.6%, while the Information and Business & Professional sectors saw 12-month declines of 1.1% and 2.3%, respectively.

Employment by Industry, August 2025



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

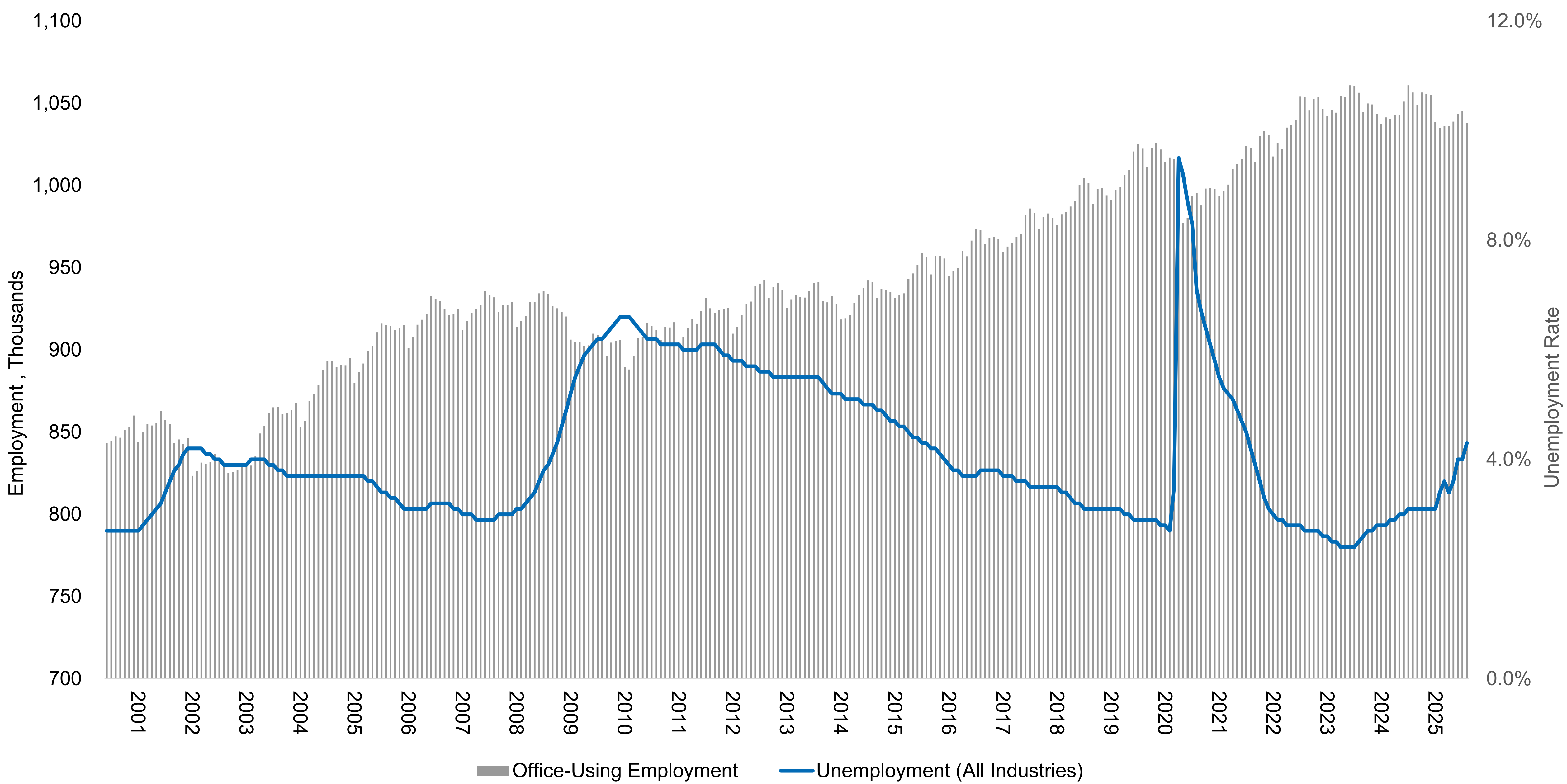


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Overall Office-Using Employment Is Lower Year-Over-Year

The number of office jobs exceeds pre-pandemic levels but are lower year-over-year. Office-using jobs in the region are currently 4.2% higher than five years ago, but 1.8% lower than in August 2024, due in part to DOGE actions and their impact on the regional workforce.

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.

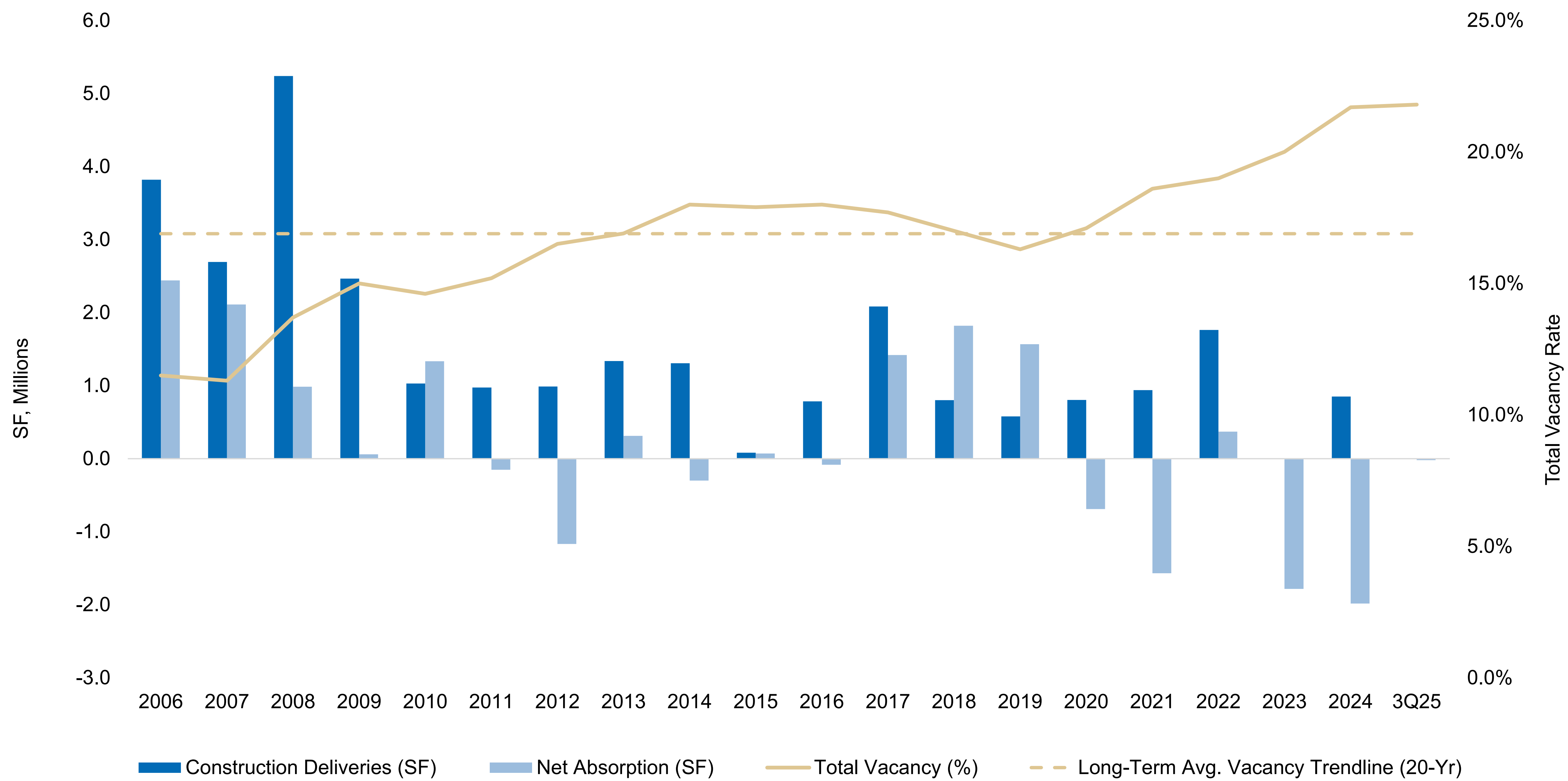
3Q25

Leasing Market Fundamentals

Market Sees Flat Absorption and Vacancy During Third Quarter

After nearly a quarter-million square feet of positive absorption in the first quarter of 2025, Northern Virginia has seen two consecutive quarters of negative absorption, with the third quarter registering negative 20,883 square feet. As a result, the market's vacancy rate remained flat quarter-over-quarter, at 21.8%, but is down 20 bps compared with the same period last year. The development pipeline remains limited, with just 89,750 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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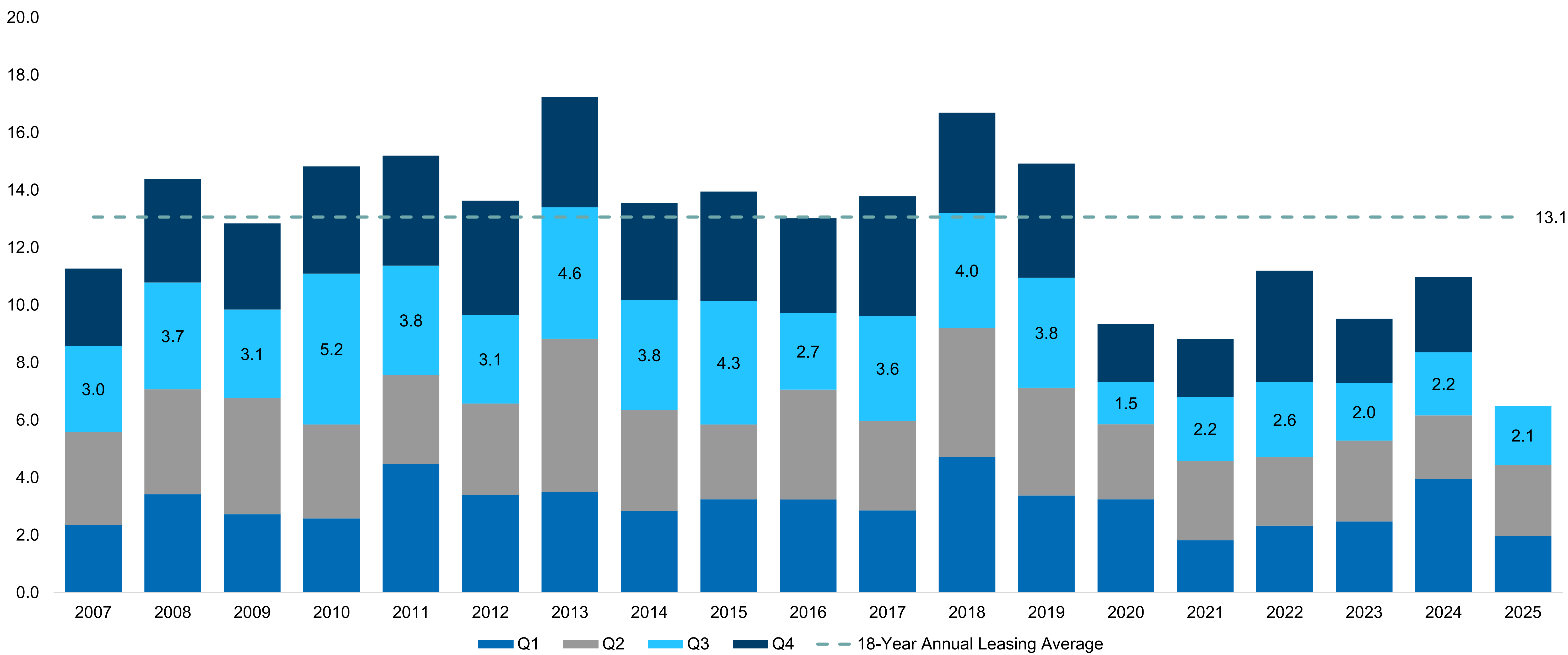
Year-To-Date Total Leasing Volume Behind Historical Average

Leasing activity in Northern Virginia during the third quarter of 2025 totaled 2.1 million square feet, keeping the market below the pace of the previous five years (10.0 million square feet annually) and well below the 18-year leasing average (13.1 million square feet). Uncertainty over federal government funding and actions have played a role in the slower rate of leasing. Worries have somewhat softened, and many tenants in the market that were impacted either directly or indirectly by are beginning to make decisions, potentially leading to a busier fourth quarter. Over the last five years, Northern Virginia has averaged approximately 7.4 million square feet of leasing activity through the first three quarters, 14.0% higher than leasing activity year-to-date in 2025.

Total Leasing Activity (msf)

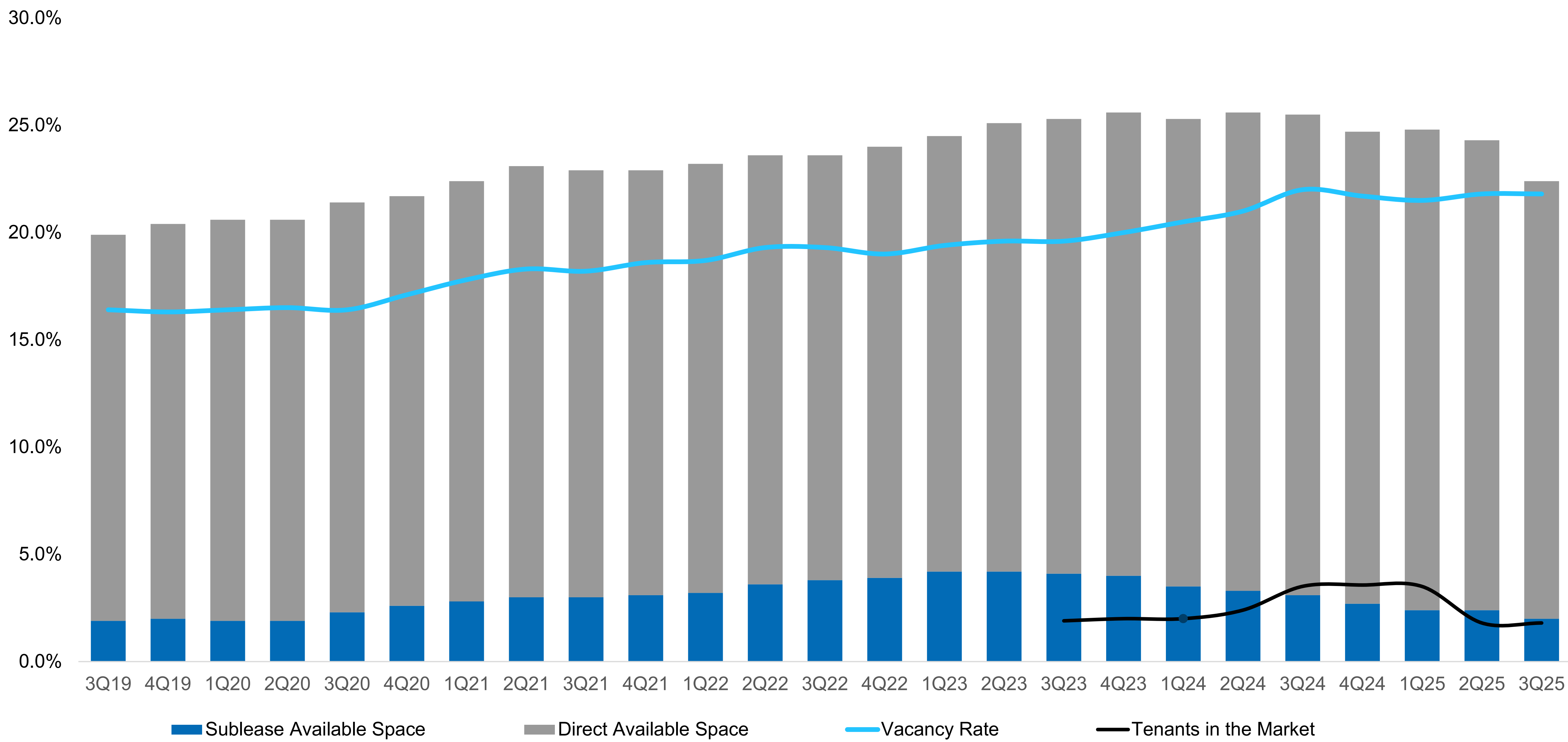


Source: Newmark Research, CoStar
*Year-to date data is subject to change from CoStar data and is often lagging

Vacancy Flat While Sublease Availability Reaches Pre-Pandemic Levels

Sublease availability declined by 40 bps, ending the third quarter at 2.0%, its lowest level since the second quarter of 2020, and 100 bps below the six-year average. The direct availability rate decreased by a significant 150 bps and sits in line with the six-year average after spiking over the last year. The Northern Virginia office market ended the third quarter of 2025 with a vacancy rate of 21.8%, even with last quarter and 20 bps lower than one a year ago.

Available Space and Tenant Demand as Percent of Overall Market

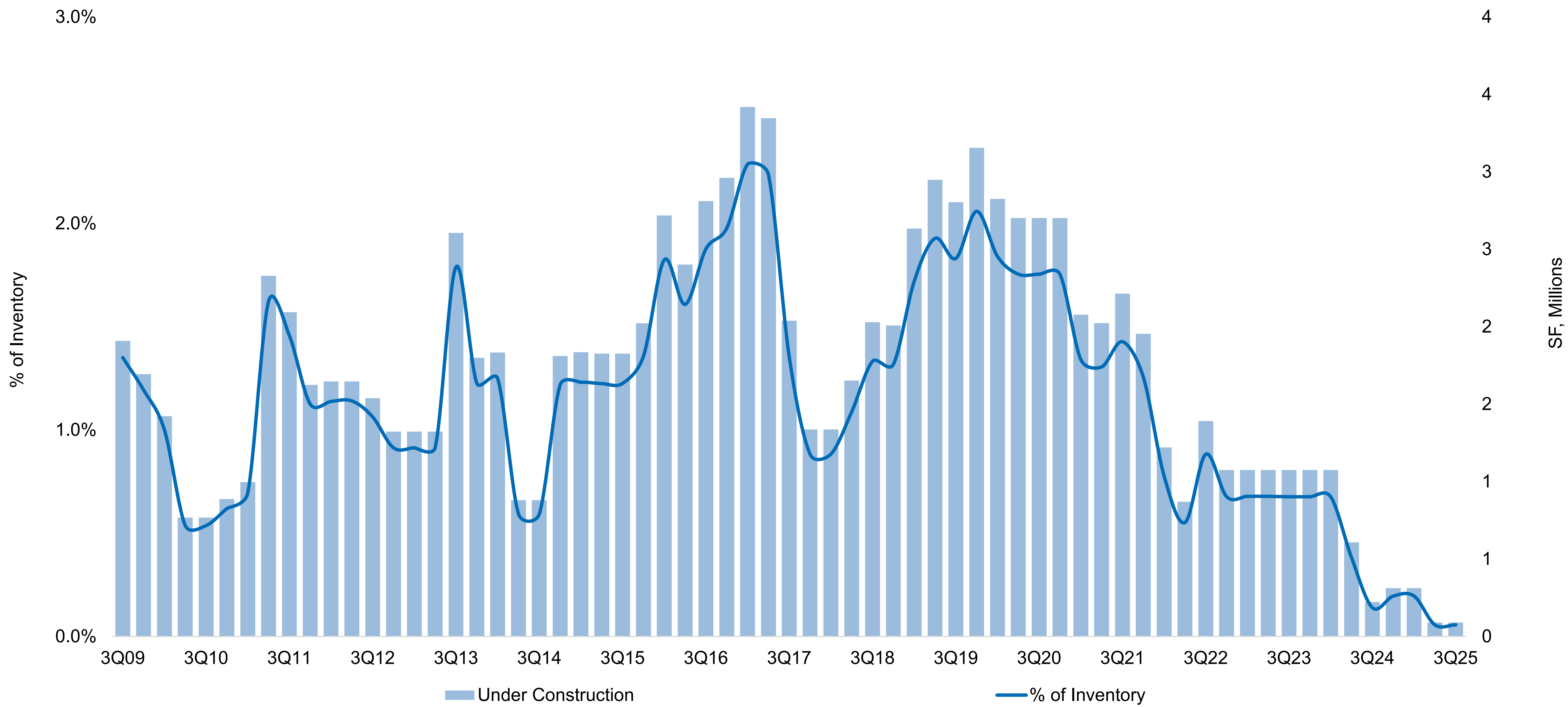


Source: Newmark Research, CoStar

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

There 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 3Q25. 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.

Office Under Construction and % of Inventory

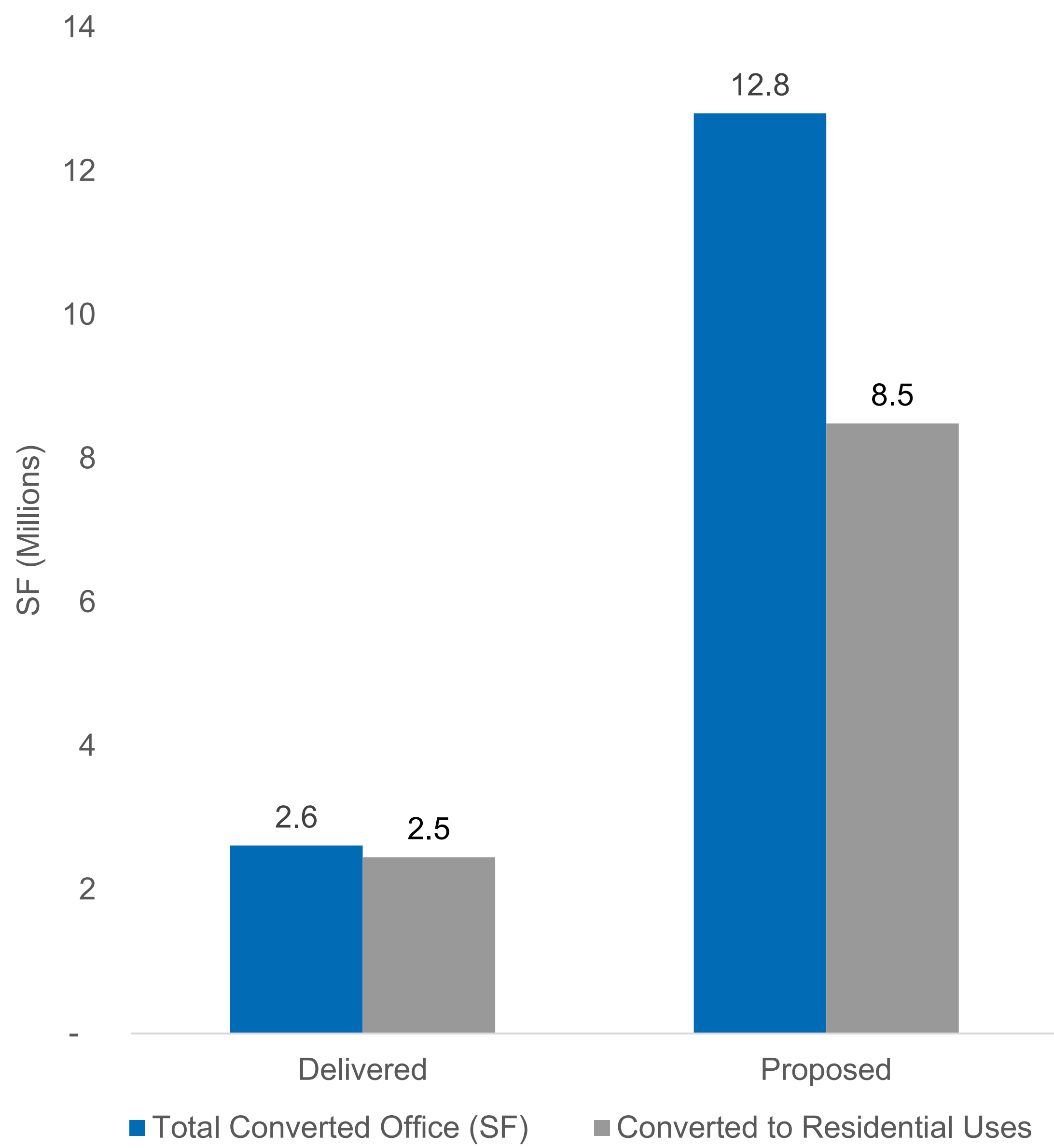


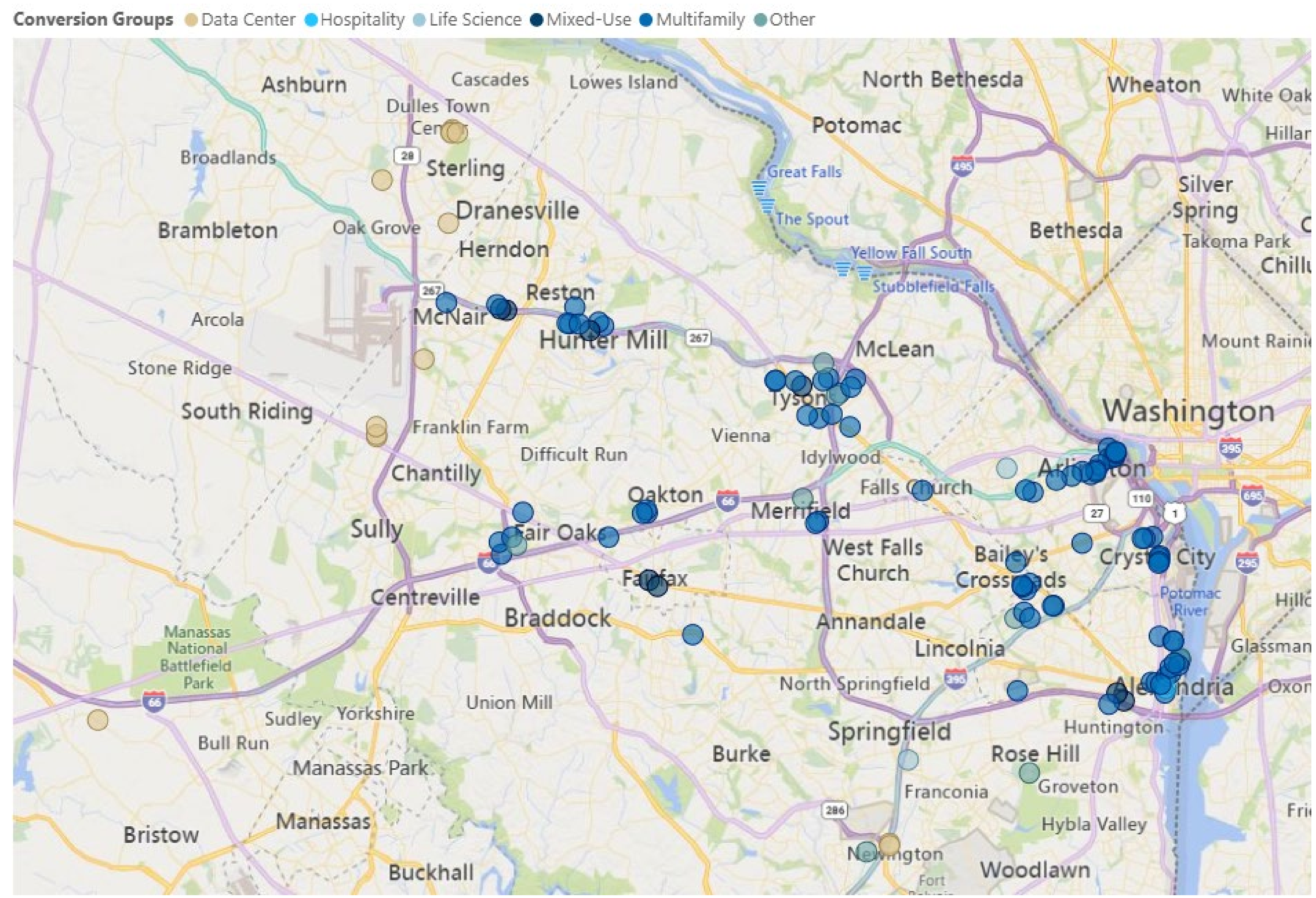
Source: Newmark Research, CoStar

Proposed Office Conversion Activity Remains Strong in Northern Virginia

Since 2020, 2.6 MSF of office space in Northern Virginia has been converted to other uses, with an additional 12.8 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. Close-in submarkets covering Alexandria, Arlington and Tysons Corner are seeing primarily residential conversion, while in Western Fairfax and Eastern Loudoun counties, office-to-data-center conversions are becoming prevalent, with proposed office-to-data center conversions totaling more than 2.3 million square feet.

Northern Virginia Office Conversions Delivered or Proposed After 2020



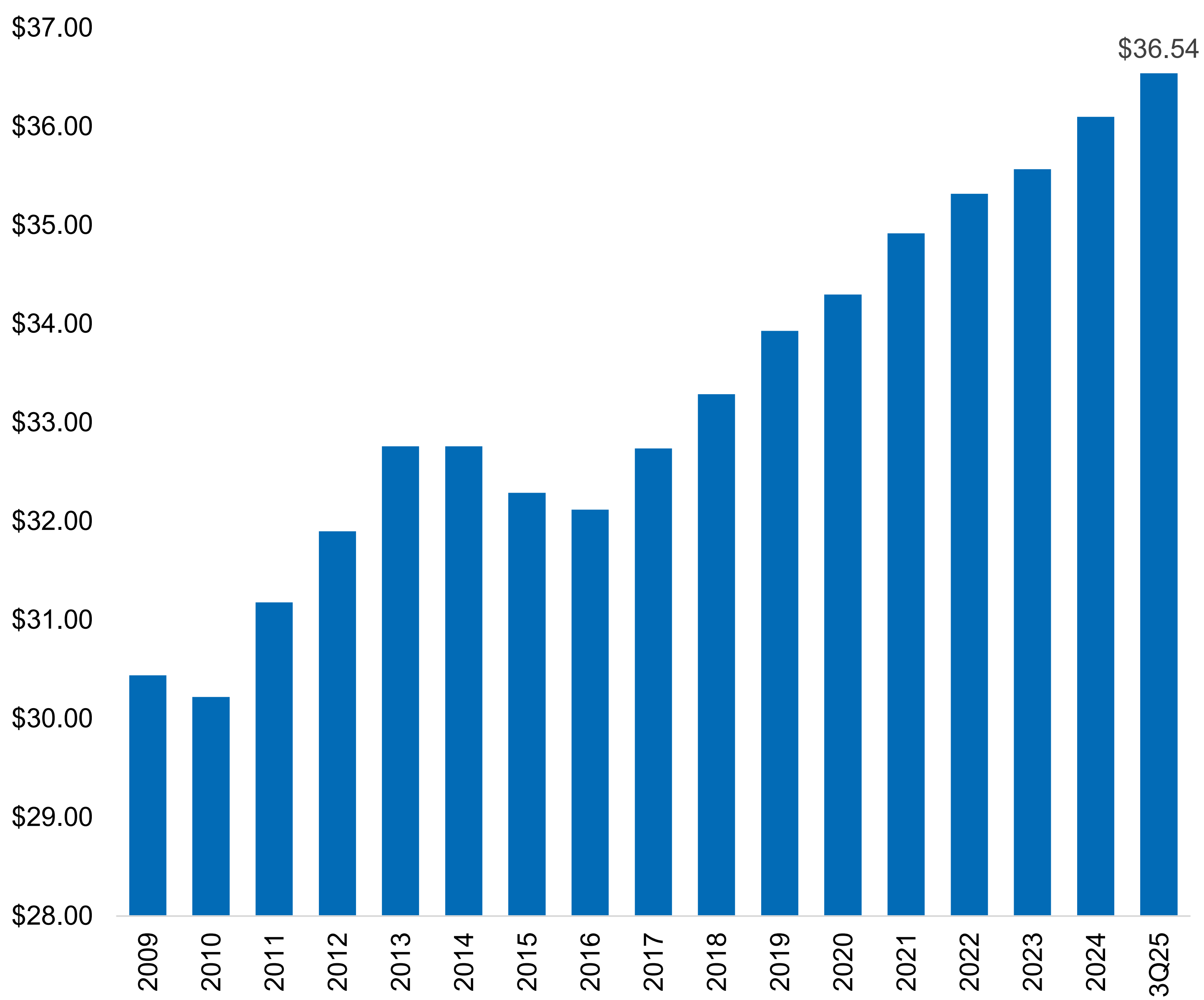


Source: Newmark Research.

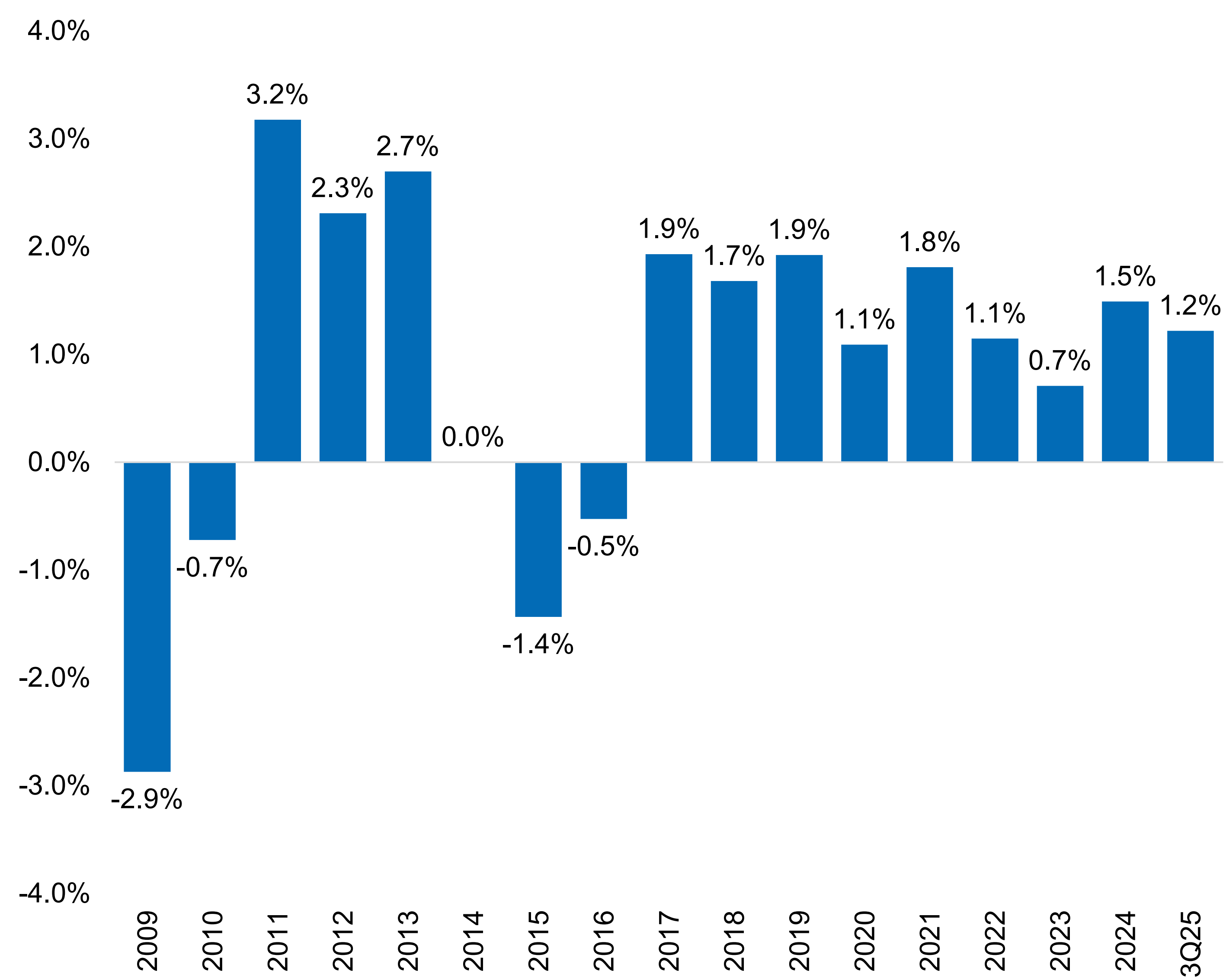
Asking Rents Continue To Rise Despite Declining Tenant Demand and Flat Vacancy

Rents have increased each year since 2016, growing by 13.8% overall during this period, or 1.5% annually. In Northern Virginia, rents averaged $36.54 PSF as of the third quarter of 2025, an increase 1.2% since the end of 2024 and 2.1% over the past 12 months. Rents continue to show consistent growth, despite a decline in demand.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

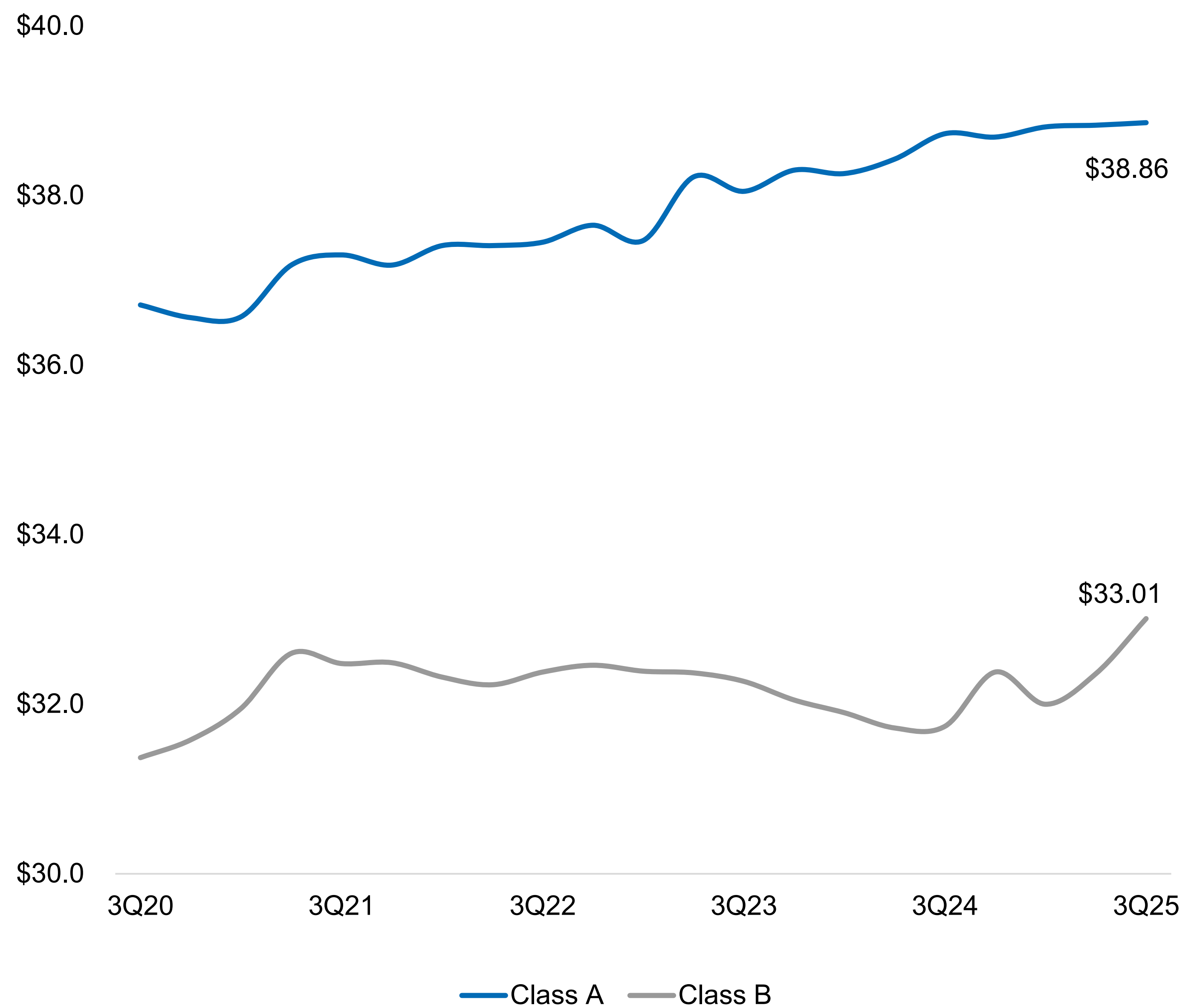


Source: Newmark Research, CoStar

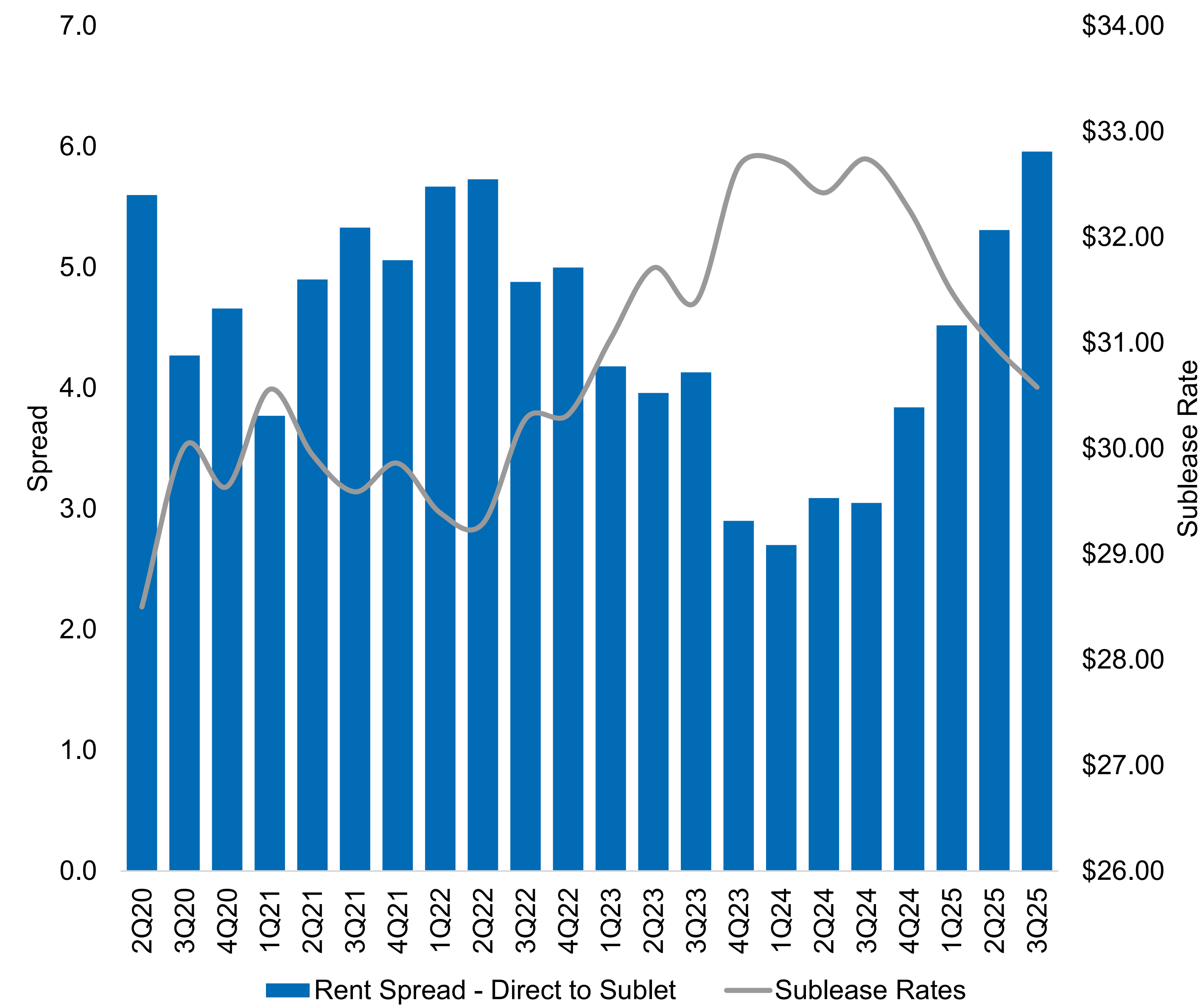
Class A and Class B Rent Spread Tightens While Direct to Sublet Rent Spread Expands

Class A rents at 3Q25 were $38.86 PSF, an increase of 0.3% year-over-year while Class B rents have increased by 4.0% during the same period, ending the third quarter at $33.01 PSF. Overall, Class A rates achieve a premium of approximately 17.7% 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 five-year high during the third quarter of 2025 as sublease rates declined by 6.6% year-over-year..

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

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3Q25

Market Statistics

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