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4Q24

# Northern Virginia Office Market Overview



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# Market Observations

## Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. October’s 3.1% unemployment rate remains lower than the region’s ten-year historical average of 3.9% and decreased 40 basis points quarter-over-quarter. However, the regional unemployment rate has increased 30 basis points year-over-year. Furthermore, the Washington DC metro’s unemployment rate is 100 basis points lower than the national rate.
- Year-over-year, job gains were uniquely most pronounced in Manufacturing, posting a gain of 4.7%. Furthermore, the Other Services sector also experienced notable job gains, increasing 3.6% year-over-year. The office-occupying industries of Information and Financial Activities experienced job losses over the past year, however, the Business and Professional Services sector experienced gains of 1.4% year-over-year.
- 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 1.5% higher than five years ago—just prior to the pandemic—and 6.3% 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. The average PSF of \$239 is down from the five-year peak of \$293 PSF in 2Q23. The total transaction volume in the fourth quarter was \$1.3 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 2100 Reston Parkway in Reston with Newmark representing the seller. This roughly 170,000 SF building built in 2001 was sold to an individual buyer from Moore & Associates for \$14.3 million or \$85 PSF. At the time of sale, 2100 Reston Parkway was 81% occupied. It last sold in December 2019 for \$33.4 million or \$198 PSF.

## Leasing Market Fundamentals

- Net absorption for the region totaled positive 585,215 square feet during Q4 2024, with the positive absorption spread out among many submarkets. Overall vacancy decreased to 22.7%, down 40 bps quarter-over-quarter and up 170 bps year-over-year. Availability also decreased, ending Q4 2024 at 25.4%, a decrease of 70 bps quarter-over-quarter and 90 bps year-over-year.
- Major fourth-quarter transactions were spread across Northern Virginia, with SAIC and Zeta Associates both signing renewals. Additionally, Gartner restructured their lease at 1201 Wilson Boulevard to make room for CoStar to move in after they purchased the building earlier this year.
- Rents have increased slightly in 2024, ending the fourth quarter at \$35.95, an increase of 1.3% since the end of 2023.
- After Fuse at Mason Square and 12050 Inspiration Street delivered in the third quarter totaling 385,000 SF, the office construction pipeline ended Q4 2024 with three properties totaling 312,000 SF.

## Outlook

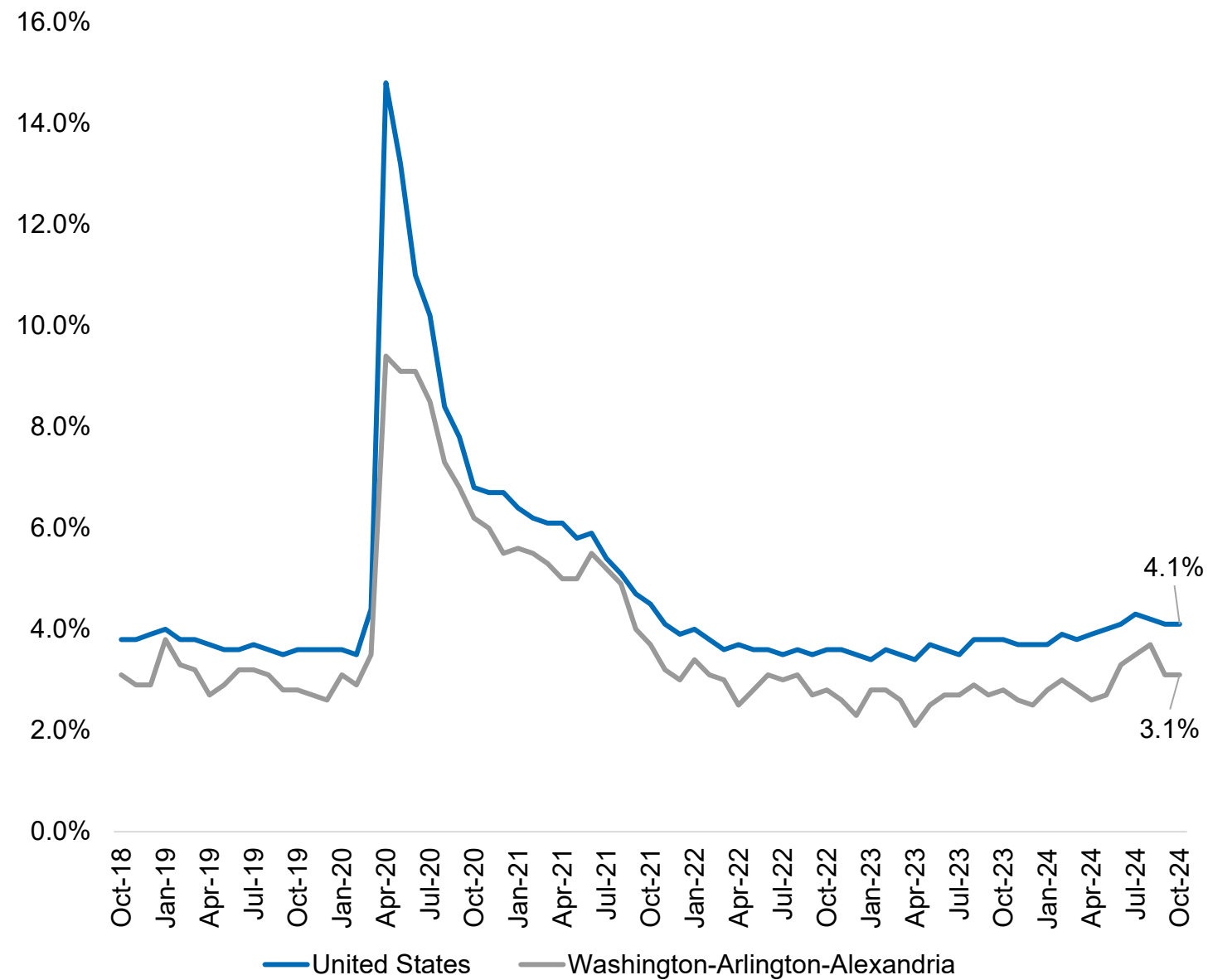
- Several large to mid-sized leases in the fourth quarter ended the year on a positive note. These large leases show tenants have more certainty on their long-term plans and have conviction in the Northern Virginia Office Market.
- Fewer landlords have capital for tenant improvements, which is driving down the total cost for concessions. These concessions 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.
- Some 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.

1. Economy
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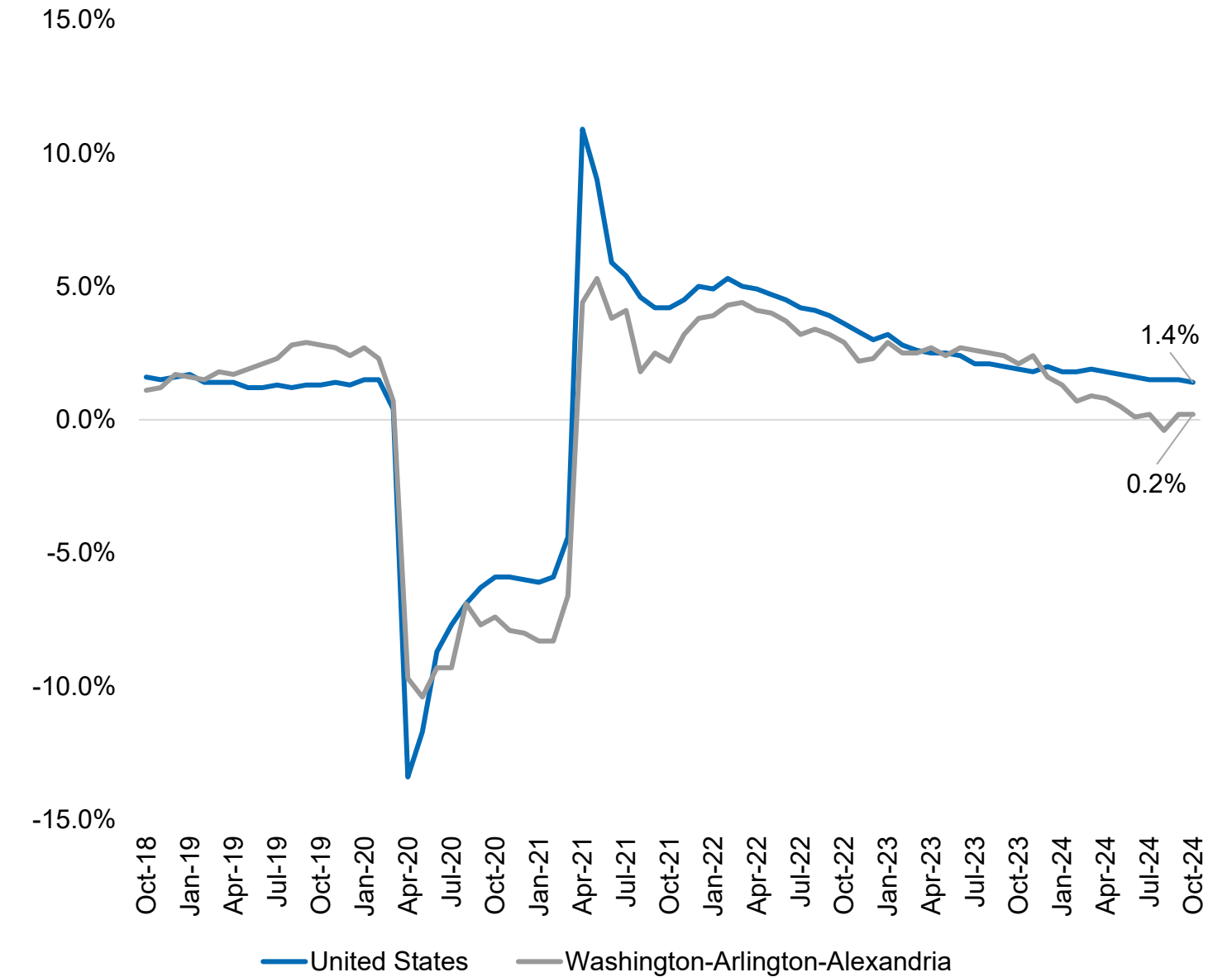
# Metro Employment Job Growth Rebounds from Negative Territory

The region's labor market is very tight, with unemployment 100 basis points below the national average. The metro unemployment rate drastically decreased 60 basis points from last quarter. National job growth has begun to slow but nonetheless remains positive. Regional job growth has recovered slightly from the negative growth 0.4% in August to positive 0.2% growth year-over-year in October.

Unemployment Rate, Seasonally Adjusted



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

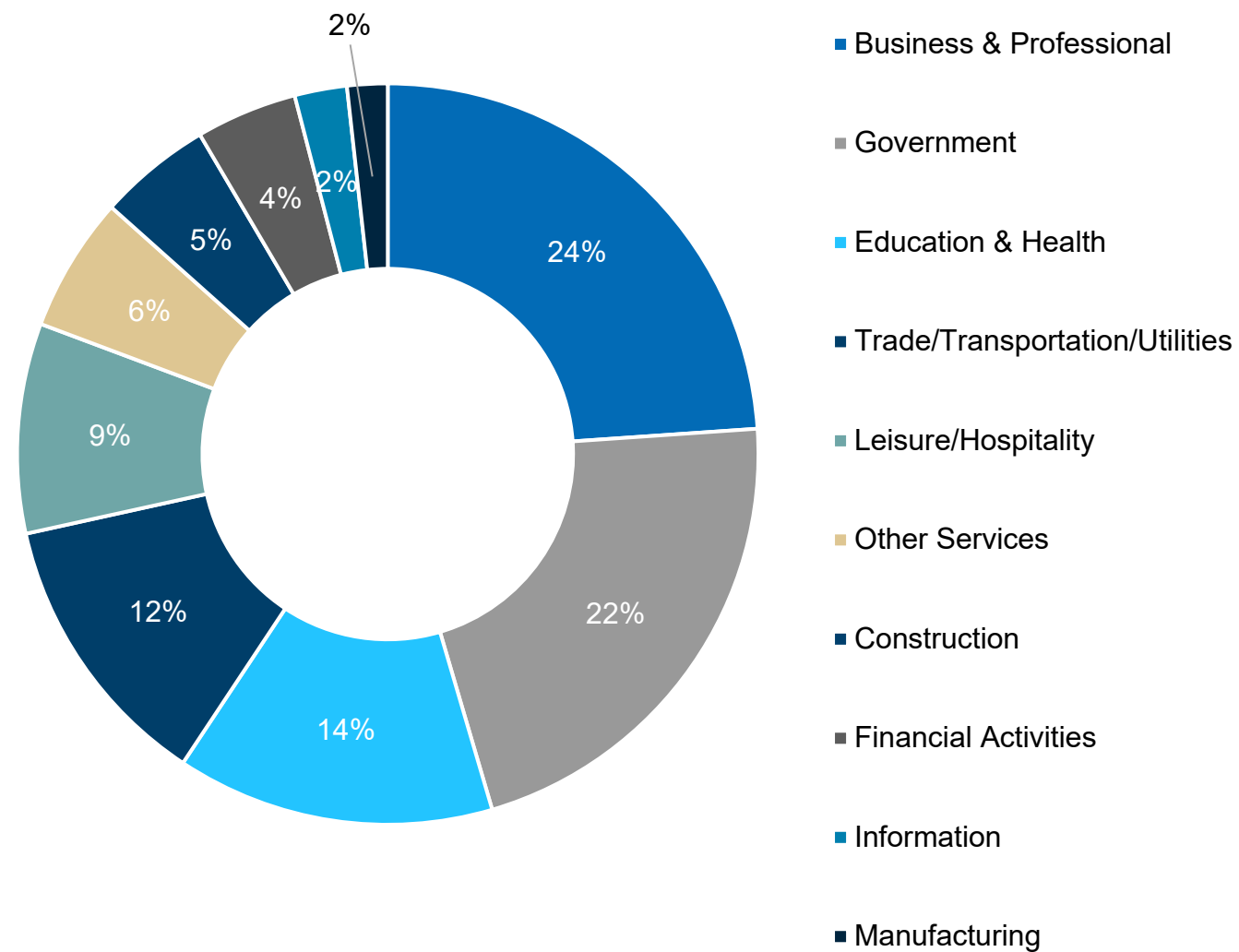


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

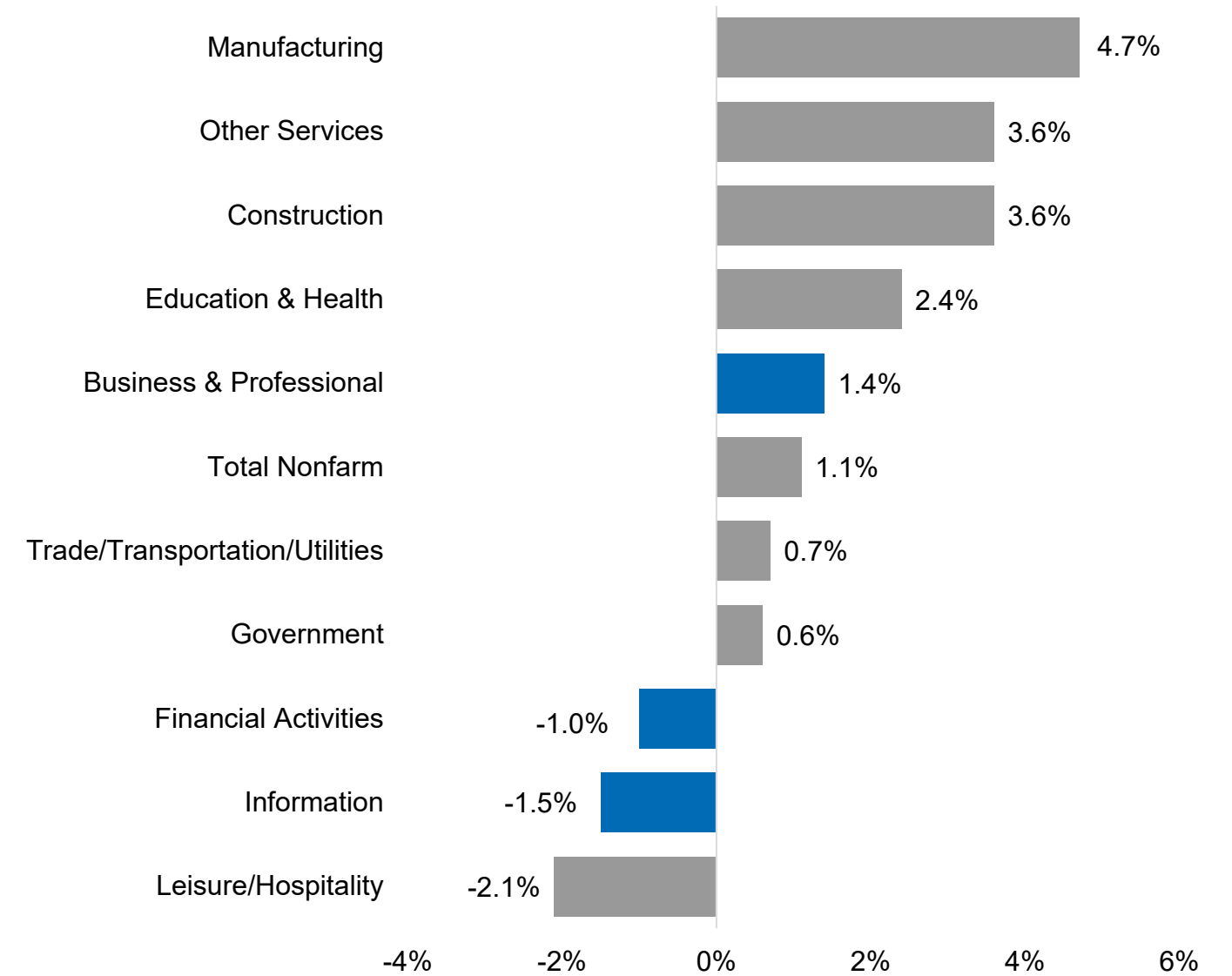
# Business & Professional Services Experienced Positive Annual Growth

Rather atypically, Manufacturing, other services, and Construction propped up job growth in the region, leading to total nonfarm employment growth of 1.1%. Although the other office-using sectors of Financial Activities and Information continued to have negative job growth, Business and Professional Services grew 1.4% year-over-year. This may be the result of return to the office policies taking affect and increasing demand for space.

Employment by Industry, November 2024



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



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

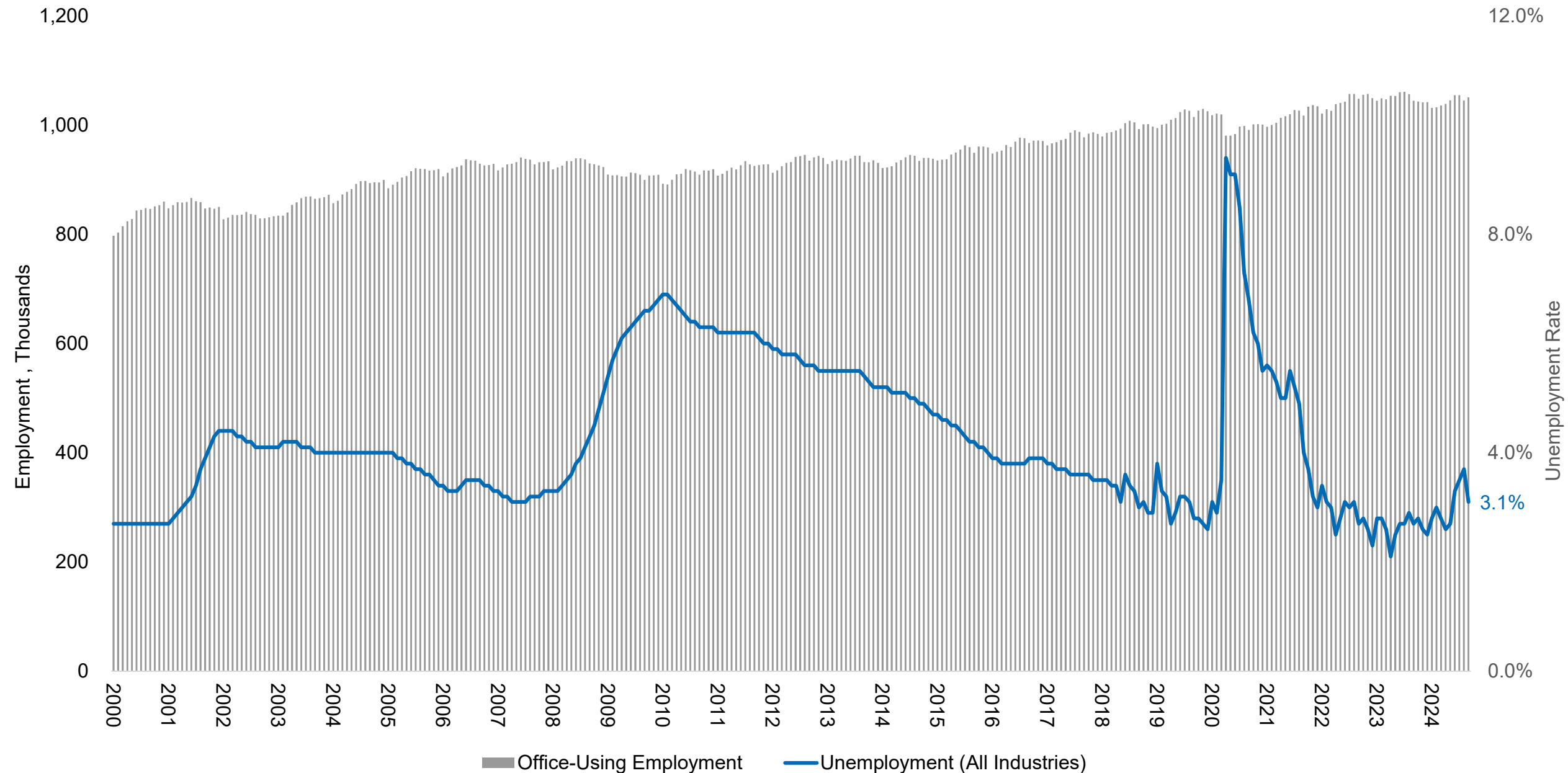
Note: August 2024 data is preliminary.

\*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 2.4% higher than five years ago—just before the pandemic—and 6.3% 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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# Economy



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# Leasing Market Fundamentals

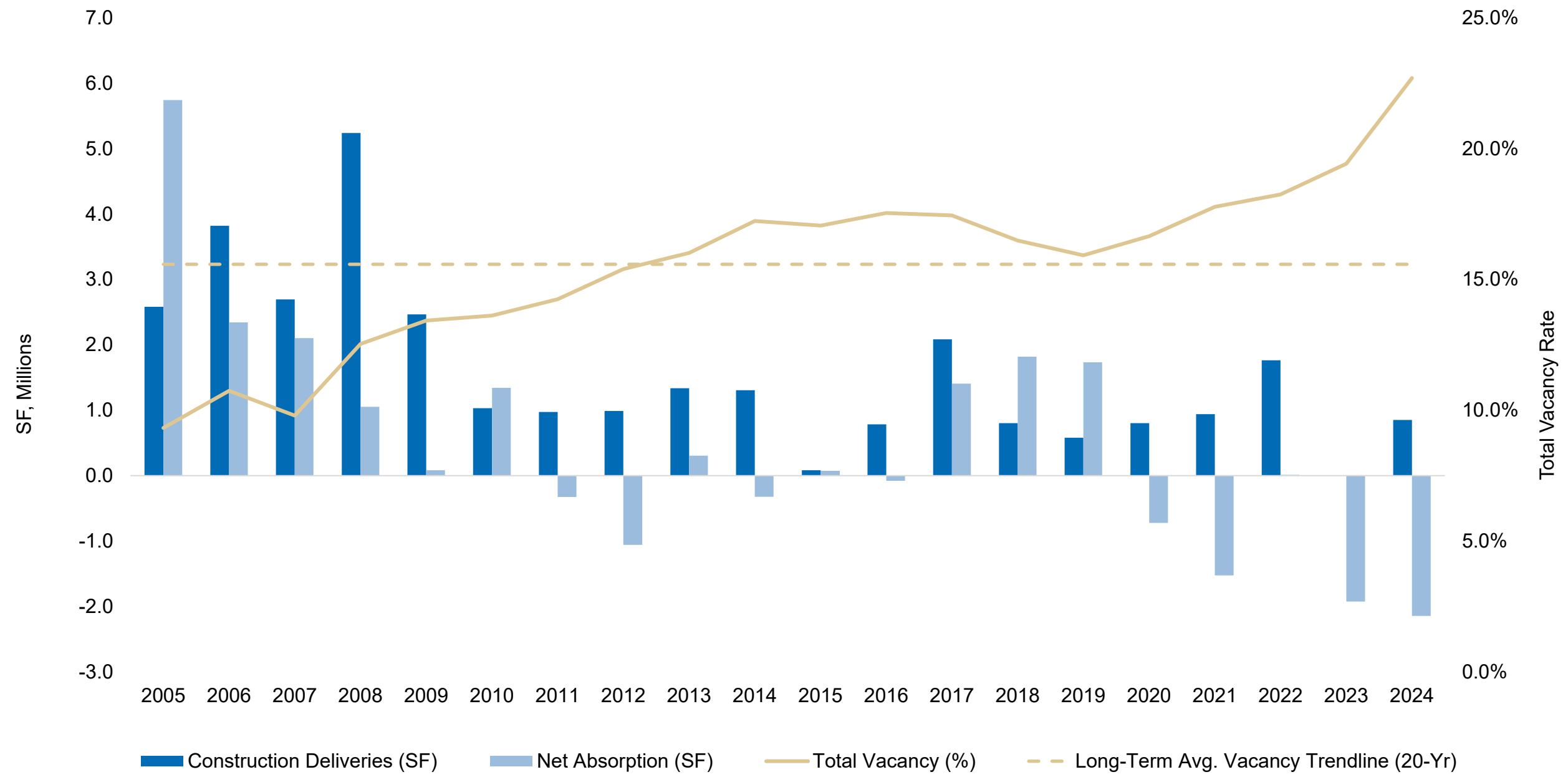




# Market Continues to See Vacancies Rise Alongside a Slowdown in Development

Northern Virginia's vacancy rate has decreased 40 basis points during the fourth quarter of 2024, ending at 22.7%. Additionally, Northern Virginia experienced roughly 585,000 SF of positive absorption during the fourth quarter. Despite this recent uptick, Northern Virginia ended the year at a total of 2.1 MSF of negative absorption. 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

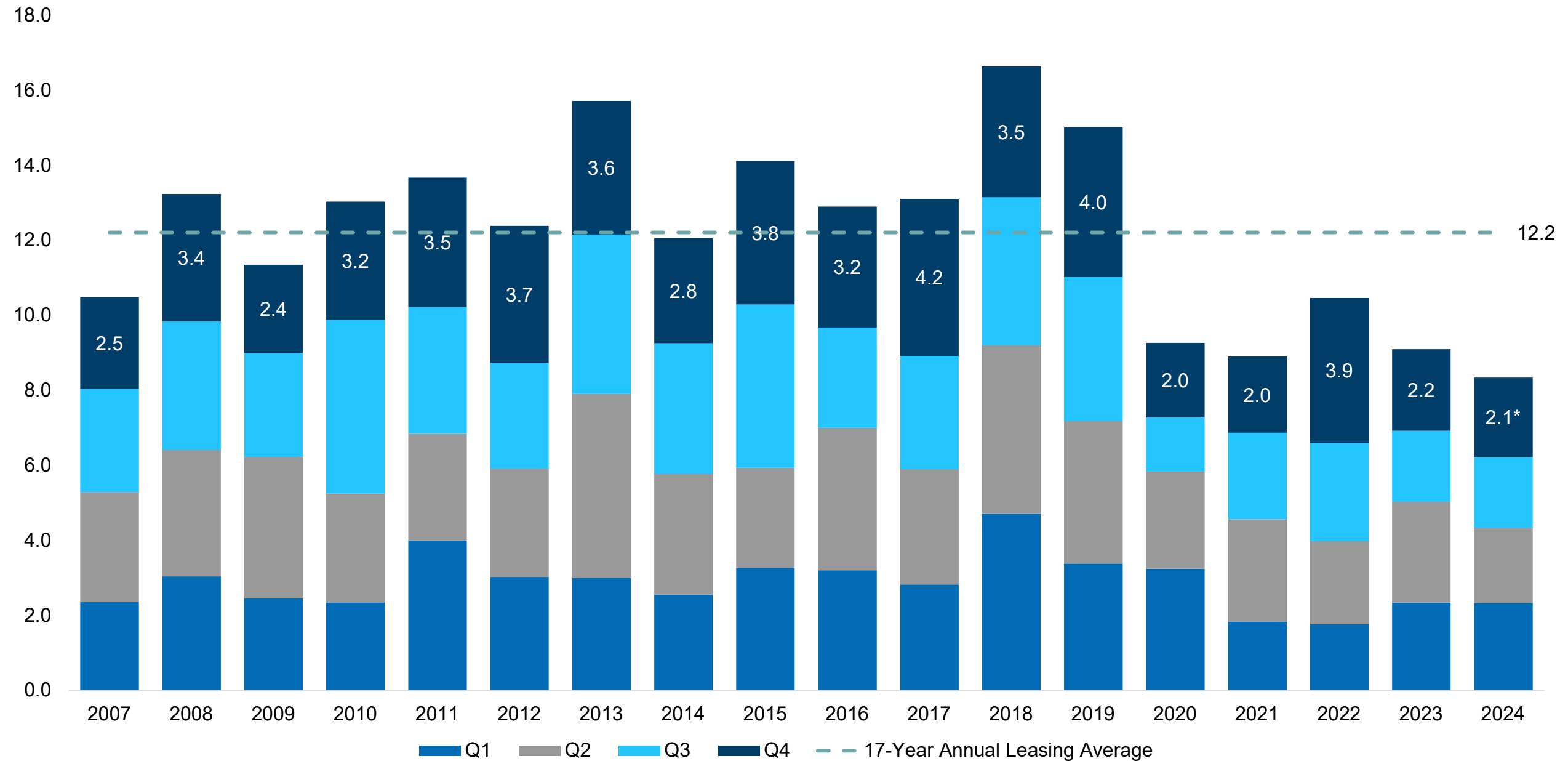


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# Total Leasing Volume Remains Steady for Fifth Consecutive Year

Leasing activity during Q4 2024 totaled 2.1 million square feet, slightly above the lowest level of fourth-quarter activity the market has experienced during the past 16 years. Overall, throughout 2024, the market has seen 8.3 MSF of leasing activity, a historically slow year compared to both the five-year average of 9.2 MSF, and the long-term average of 12.2 MSF.

Total Leasing Activity (msf)

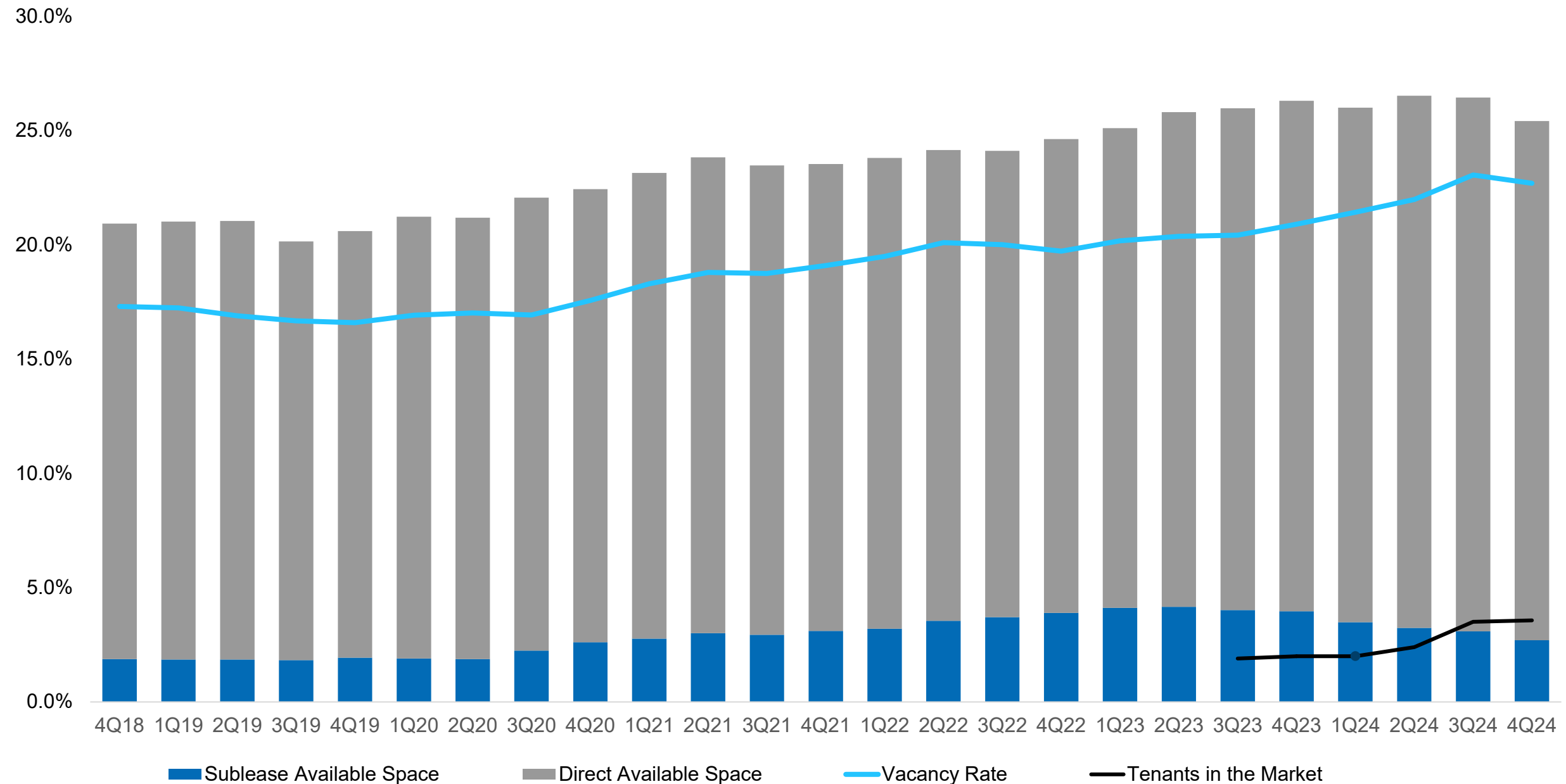


Source: Newmark Research, CoStar  
 \*Year-to date data is subject to change from CoStar data and is often lagging

# Vacancy Declines as Sublease Availability Decreases Towards Pre-Pandemic Levels

The vacancy rate ended 4Q24 at 22.7%, down 40 bps from last quarter and up 180 bps from last year. The direct space availability for 4Q24 was also 22.7%, down 70 bps from the third quarter, and up 40 bps from last year. The sublease availability rate for 4Q24 was 2.7%, down 40 bps from the prior quarter, and down 130 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

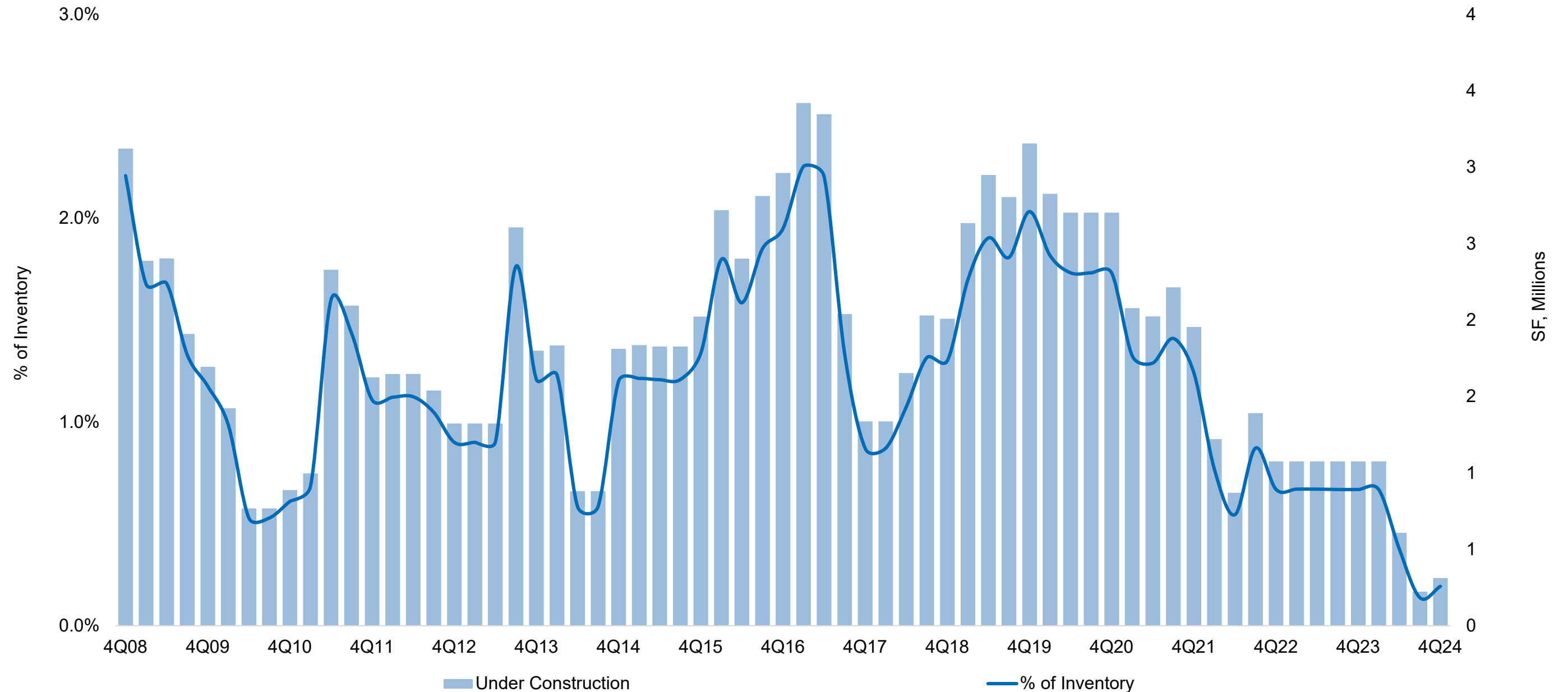


Source: Newmark Research, CoStar

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

Northern Virginia didn't experience any deliveries in the fourth quarter of 2024. The market's development pipeline remains historically low, with only three properties totaling 312,000 SF under construction to end Q4 2024. However, roughly 90,000 SF of new supply broke ground this quarter across two buildings in the One Loudon mixed-use development in Ashburn with an anticipated delivery of Q1 2026. This lack of new supply will help ease vacancy even further.

## Office Under Construction and % of Inventory

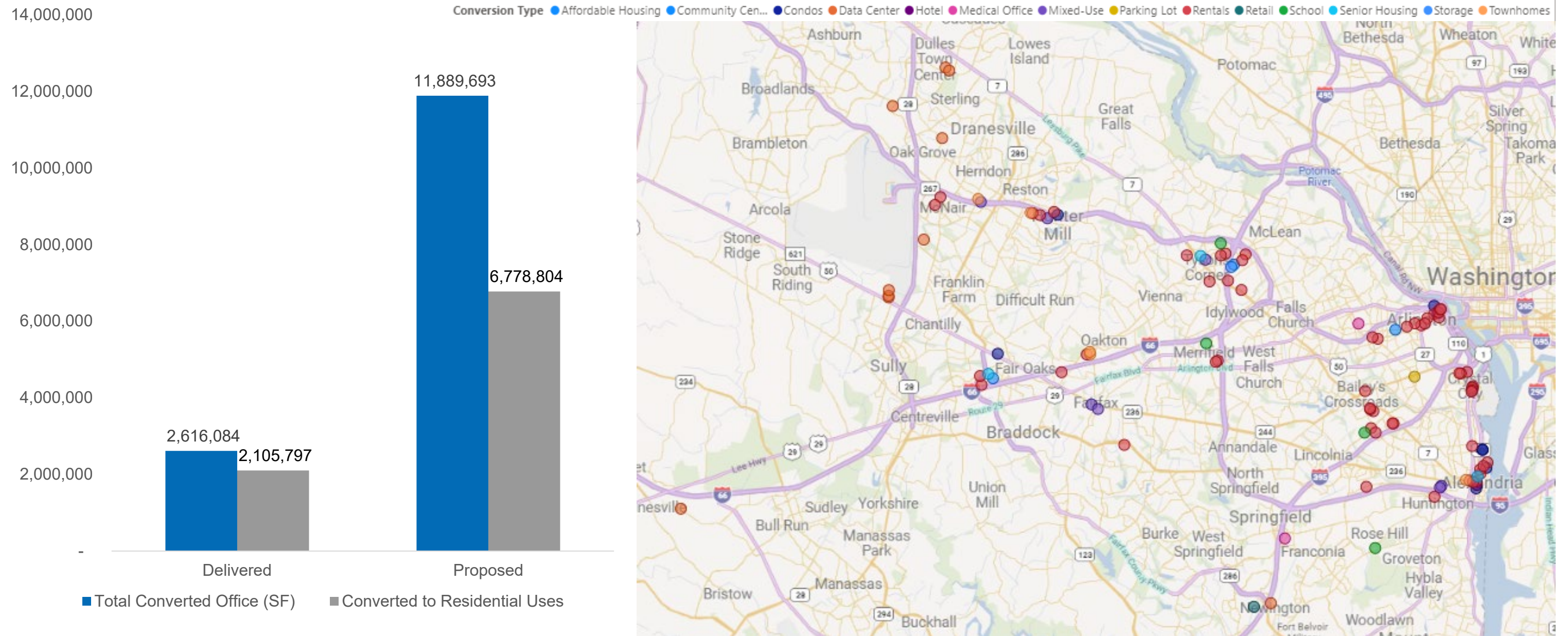


Source: Newmark Research, CoStar

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

Since 2020, 2.6 MSF of office space has been converted to other uses, with an additional 11.9 MSF of office space proposed to convert. Historically, 2.1 MSF of the 2.6 MSF of office space that has been removed in Northern Virginia was converted into residential uses. Looking forward, approximately 6.8 MSF of the 11.9 MSF is proposed to be converted into residential uses.

Northern Virginia Office Conversions Delivered or Proposed After 2020

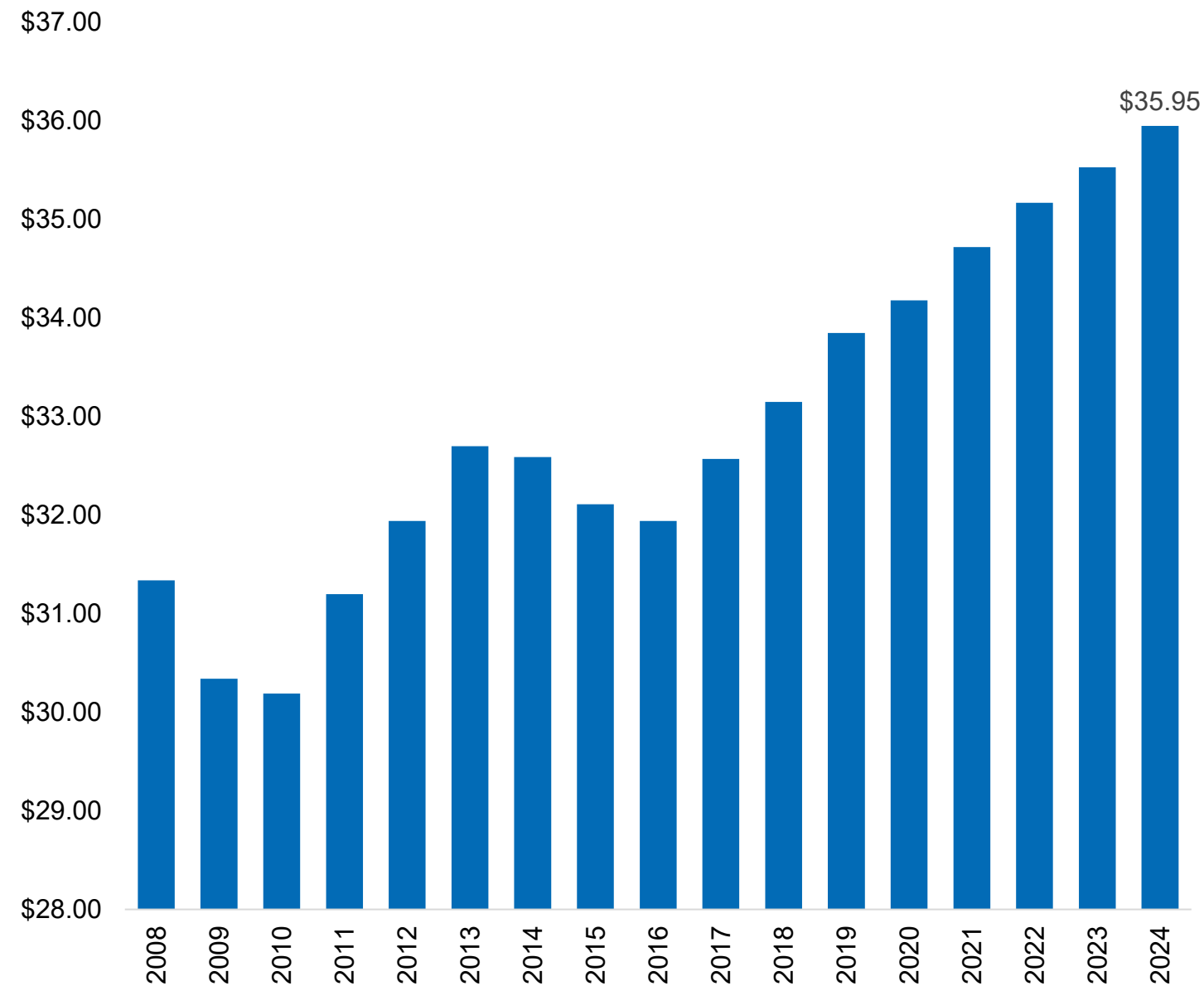


Source: Newmark Research.

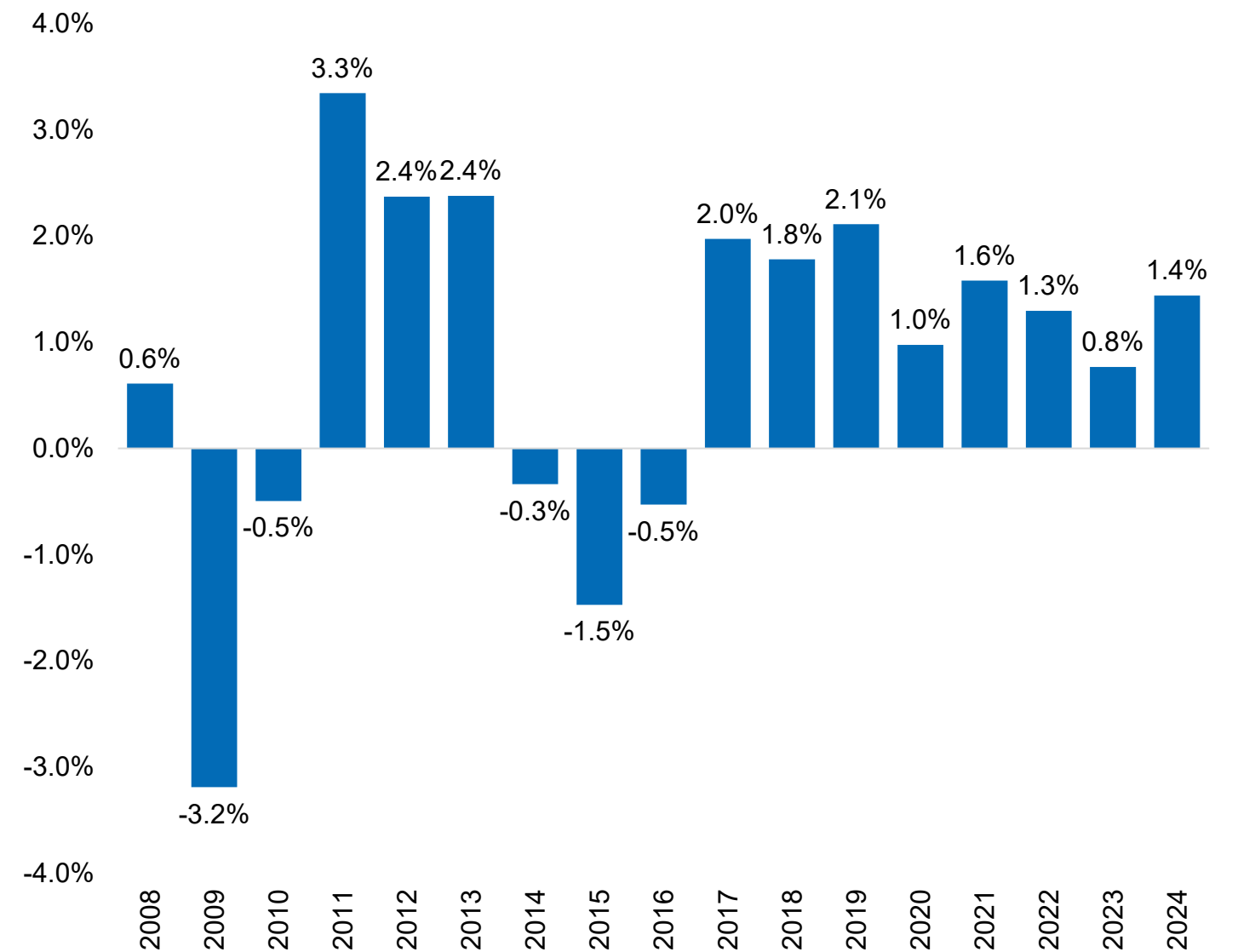
# Asking Rents Rise Amid Increasing Tenant Demand and Decreasing Vacancy

Northern Virginia office rents continue to show consistent growth over the past few years, while D.C. rents began declining in 2021. Rents ended Q4 2024 at \$35.95 PSF, an increase of 1.4% since the end of 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

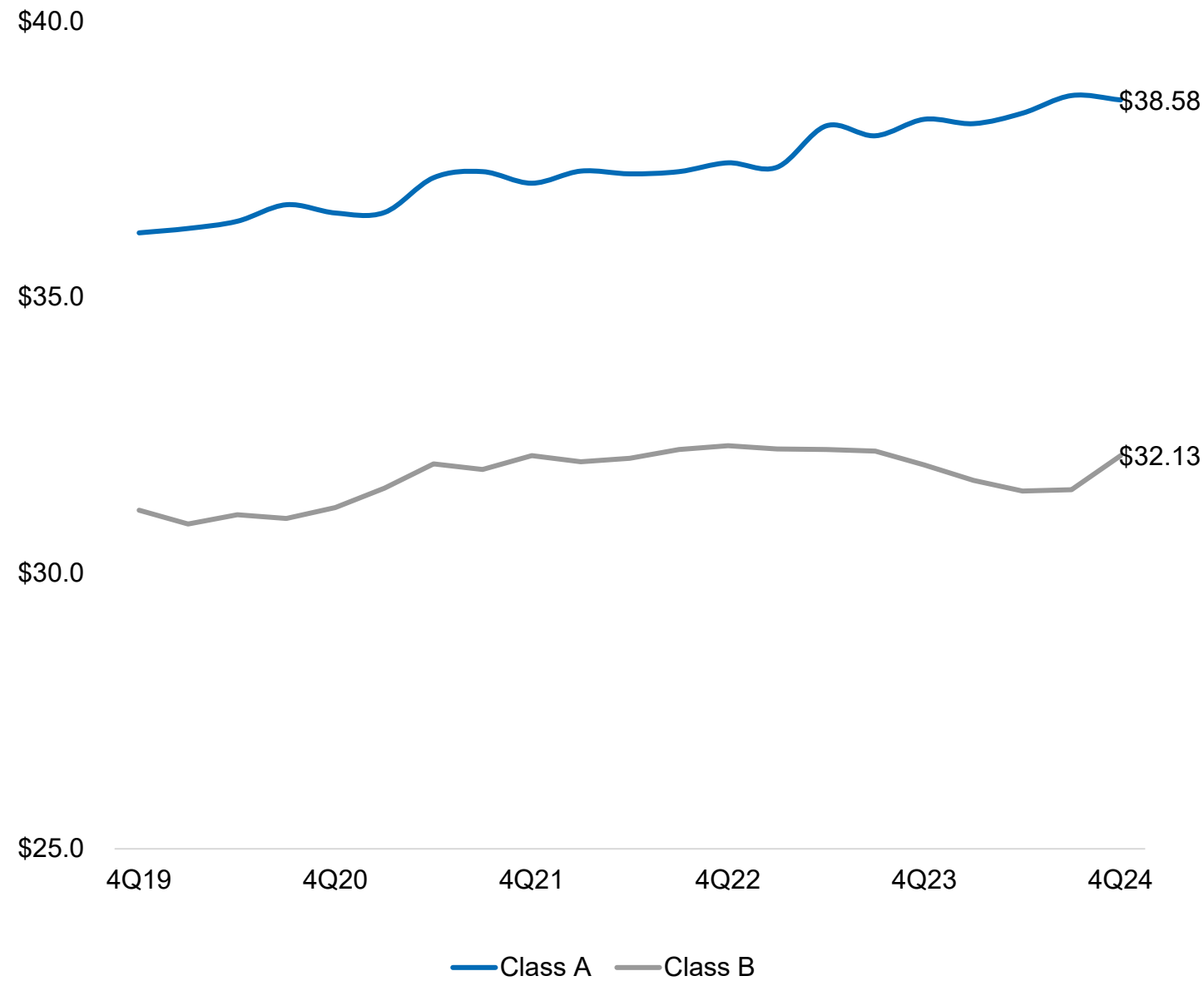


Source: Newmark Research, CoStar

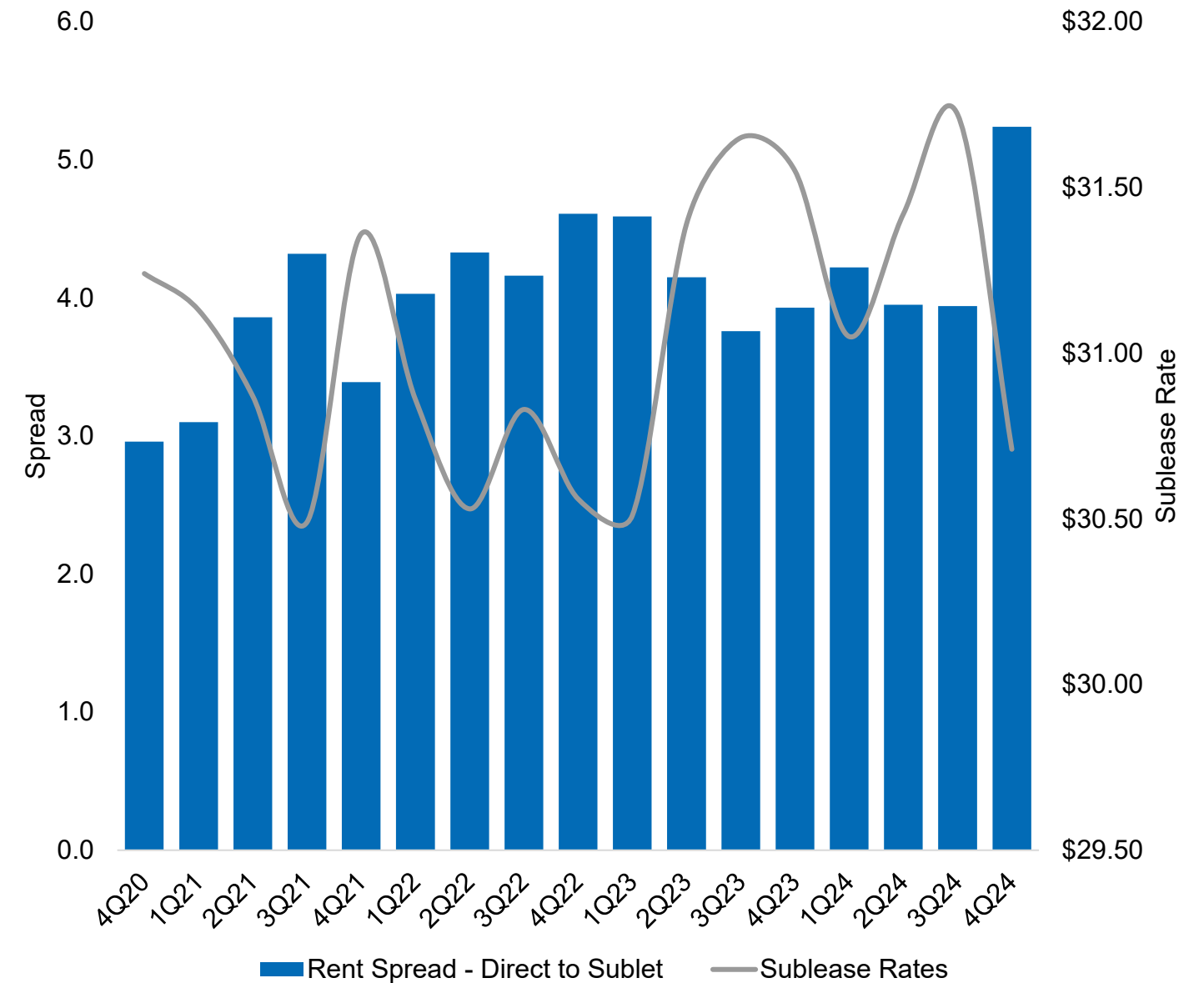
# Market Experiencing Bifurcation Between Class A and Class B Rents

Class B rents largely contributed to overall rent increases in the market, while Class A rents showed negative movement. Class A rents ended Q4 2024 at \$38.58 PSF, a decrease of 0.2% quarter-over-quarter, while Class B rents ended the quarter at \$32.13, an increase of 1.97% quarter-over-quarter. The spread between market and sublease rates is the highest it has been in the past five years. This is likely due to the sublease space on the market being less desirable amid the high vacancy rate and decreasing rental rates for Class A product.

**Class A and Class B Asking Rents**



**Sublease Rates**



Source: Newmark Research, CoStar





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# Market Statistics



# Northern Virginia Market Overview (page 1 of 2)

## 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)
<b>Northern Virginia</b>	<b>161,775,211</b>	<b>22.7%</b>	<b>25.4%</b>	<b>585,215</b>	<b>-2,146,108</b>	<b>0</b>	<b>852,143</b>	<b>312,424</b>	<b>\$35.95</b>
Class A	102,182,958	23.4%	27.6%	409,561	-1,586,502	0	852,143	312,424	\$38.58
Class B	40,945,542	22.7%	22.9%	178,974	-272,133	0	0	0	\$32.13
Class C	18,646,711	19.0%	18.9%	-3,320	-287,473	0	0	0	\$29.81

## 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	27.2%	31.0%	43,468	-159,763	0	191,034	0	\$41.57
Clarendon/Courthouse	4,389,562	36.9%	42.5%	-24,908	-92,689	0	0	0	\$43.17
Crystal City/Pentagon City	11,778,299	25.9%	28.7%	13,688	-264,212	0	0	0	\$39.00
Eisenhower Avenue	1,313,328	52.8%	52.8%	1,297	-19,306	0	0	0	\$29.75
Fairfax Center	9,614,695	21.5%	23.8%	34,321	48,344	0	0	0	\$29.35
Gainesville	247,772	7.9%	8.4%	0	1,872	0	0	0	\$24.21
Herndon	10,474,684	29.5%	36.4%	101,102	-202,329	0	0	0	\$32.89
I-395 Corridor - Alexandria	1,784,916	15.4%	15.1%	733	30,317	0	0	0	\$32.52
I-395 Corridor - Arlington	1,595,158	8.8%	10.9%	10,587	-8,239	0	0	0	\$37.37
I-395 Corridor - Fairfax	3,605,120	27.6%	15.7%	-97,860	-75,675	0	0	0	\$30.21

# Northern Virginia Market Overview (page 2 of 2)

## 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	7.6%	8.9%	-21,101	-53,688	0	0	0	\$24.46
Merrifield	8,217,732	15.5%	18.4%	-20,665	-26,657	0	0	0	\$31.85
Old Town Alexandria	10,964,095	25.0%	27.9%	31,909	-983,838	0	0	0	\$38.41
Reston	18,617,059	23.9%	27.5%	133,550	81,177	0	350,468	222,674	\$36.48
Rosslyn	8,456,598	24.5%	28.1%	-47,161	-190,792	0	0	0	\$42.81
Rt. 28 North	5,548,791	10.7%	10.5%	90,063	-53,934	0	0	0	\$27.10
Rt. 28 South	12,814,652	15.1%	17.6%	32,821	186,900	0	0	0	\$29.25
Rt. 7 Corridor	5,068,976	10.8%	13.3%	-8,803	15,109	0	0	89,750	\$29.20
Springfield	4,797,474	20.2%	23.0%	14,634	29,990	0	0	0	\$29.76
Stafford County	847,068	18.5%	15.8%	0	30,368	0	0	0	\$30.19
Tysons Corner	27,609,070	25.3%	29.6%	290,081	-476,272	0	0	0	\$38.82
Virginia Square	1,340,962	42.4%	19.3%	7,689	1,314	0	310,641	0	\$43.18
Western Loudoun County	795,188	6.9%	7.9%	-34,996	-1,528	0	0	0	\$34.66
Woodbridge	1,294,344	6.4%	5.2%	35,766	20,945	0	0	0	\$27.90

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*For more information:*

**Carolyn Bates**

*Director  
Mid-Atlantic Research*

carolyn.bates@nmrk.com

**Chad Braden**

*Senior Research Analyst  
Mid-Atlantic Research*

chad.braden@nmrk.com

**Danny Calo**

*Senior Research Analyst  
Mid-Atlantic Research*

danny.calo@nmrk.com

**District of Columbia**

1899 Pennsylvania Avenue, NW  
Suite 300  
Washington, DC 20006  
t 202-331-7000

**New York Headquarters**

125 Park Ave.  
New York, NY 10017  
t 212-372-2000

**[nmrk.com](http://nmrk.com)**

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