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1Q24

# Northern Virginia Office Market Overview



**NEWMARK**

# Market Observations

## Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. February’s 2.7% unemployment rate remains significantly lower than the region’s ten-year historical average of 4.1%. Furthermore, the Washington DC metro’s unemployment rate is 120 basis points lower than the national rate.
- Year-over-year, job gains have been most pronounced in the Education & Health and Government sectors, posting gains of 2.8% and 2.6%, respectively. The office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced job losses over the past year, helping to account for continued limited demand for office space.
- While some office-using sectors experienced a decline in employment over the past year, as of February, jobs in the office-using sectors remain at a level that is 1.1% higher than four years ago—just prior to the pandemic—and 5.3% higher than the pandemic-induced employment trough in April 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.
- The largest sale transaction of the quarter was CoStar Group’s purchase of 1201 Wilson Boulevard from a joint venture between JBG Smith and PGIM for \$325 million, or \$588 per square foot. The buyer plans to use the building for its national headquarters, relocating from the District of Columbia.
- The largest lease transaction of the quarter was General Dynamics Information Technology’s renewal of its 114,867-square-foot lease at 7770 Backlick Road in Springfield.

## Leasing Market Fundamentals

- Northern Virginia’s net absorption totaled negative 759,433 square feet during the first quarter.
- The office construction pipeline has remained at 1.0 million square feet for the past six quarters, with no new deliveries or groundbreakings since the third quarter of 2022.
- Overall office vacancy increased to 22.1%, up 40 basis points over the quarter and 100 basis points from 12 months ago.
- Rent growth has continued throughout the current cycle, albeit at a decelerating rate. Average asking rents increased 0.6% over the past 12 months but declined slightly from the fourth quarter of 2023.

## Outlook

- A strong and resilient labor market, coupled with persistent inflationary concerns, is contributing to an uncertain macroeconomic outlook in the near-term.
- While overall office availability continues to increase, sublease availability in Northern Virginia appears to have peaked for this cycle. In addition, a restrained office pipeline should help limit rising vacancy.
- 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 supply, fostering an unusual landlord-favorable environment for the most quality space. Meanwhile, conditions continue to soften in Class B and C assets.

1. Economy
2. Leasing Market Fundamentals



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# Economy

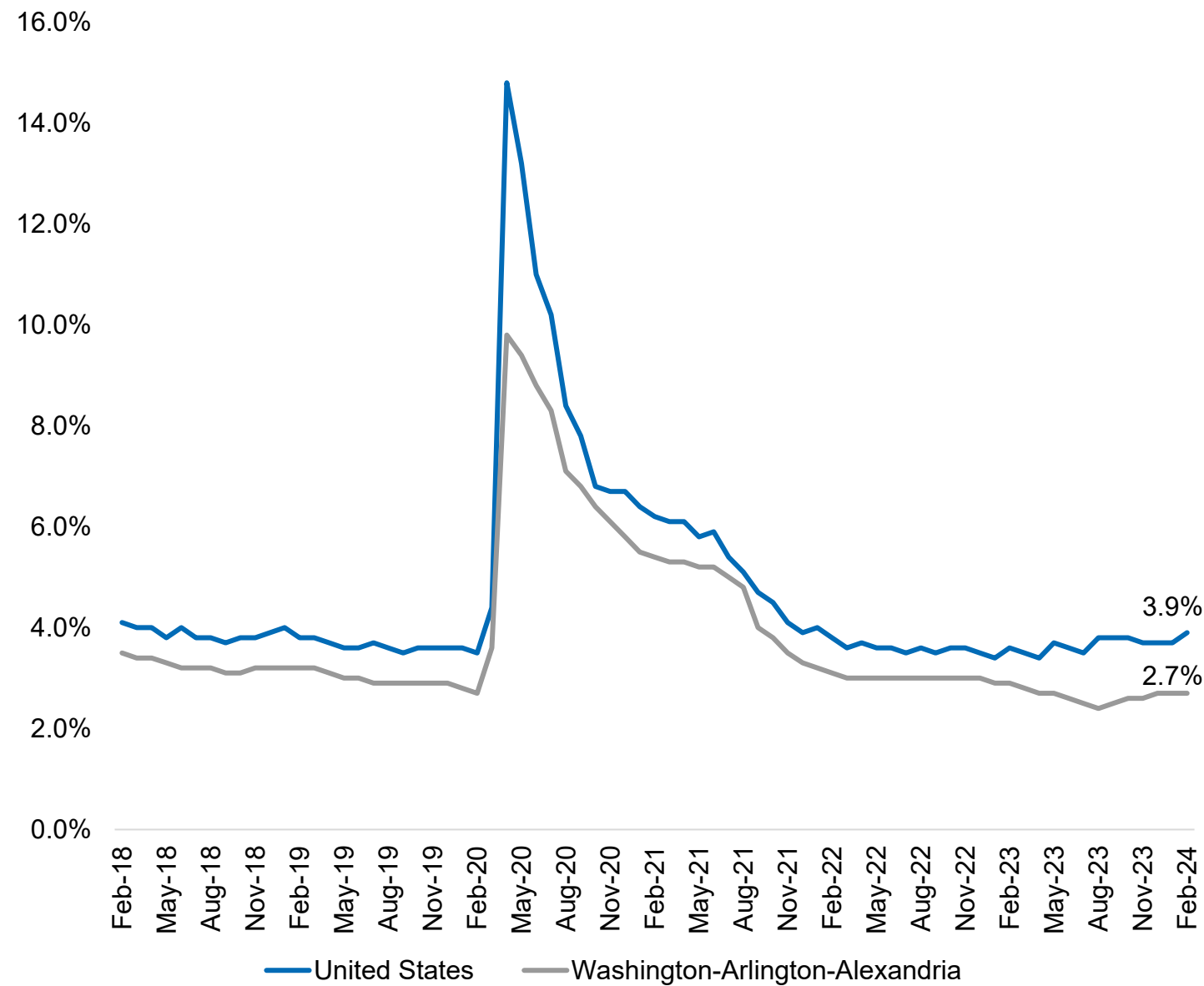




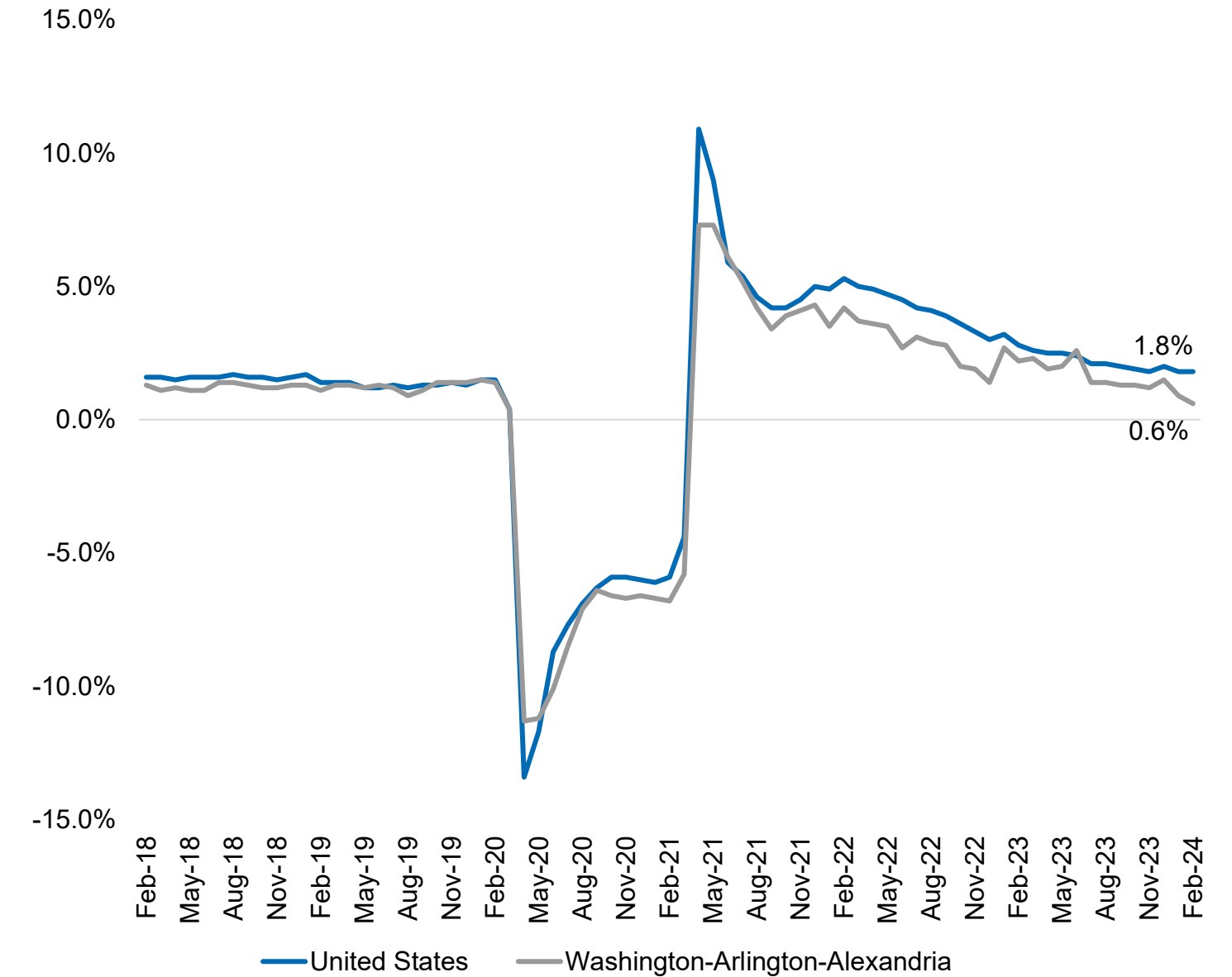
# Metro Employment Job Growth Remains Positive Despite Slowing

The region's labor market is very tight, with unemployment 120 basis points below the national average. Job growth has begun to slow, but nonetheless remains positive.

Unemployment Rate, Seasonally Adjusted



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



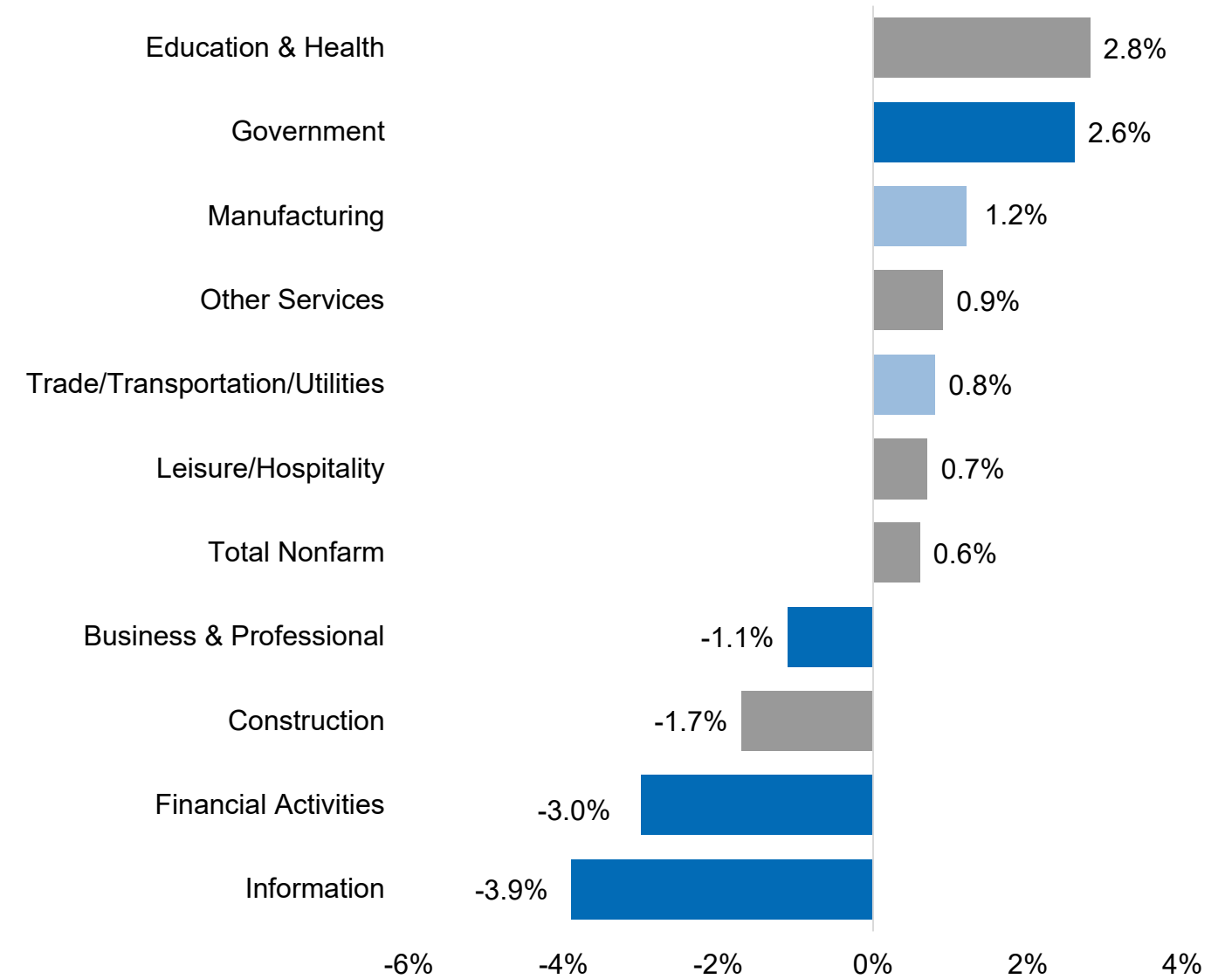
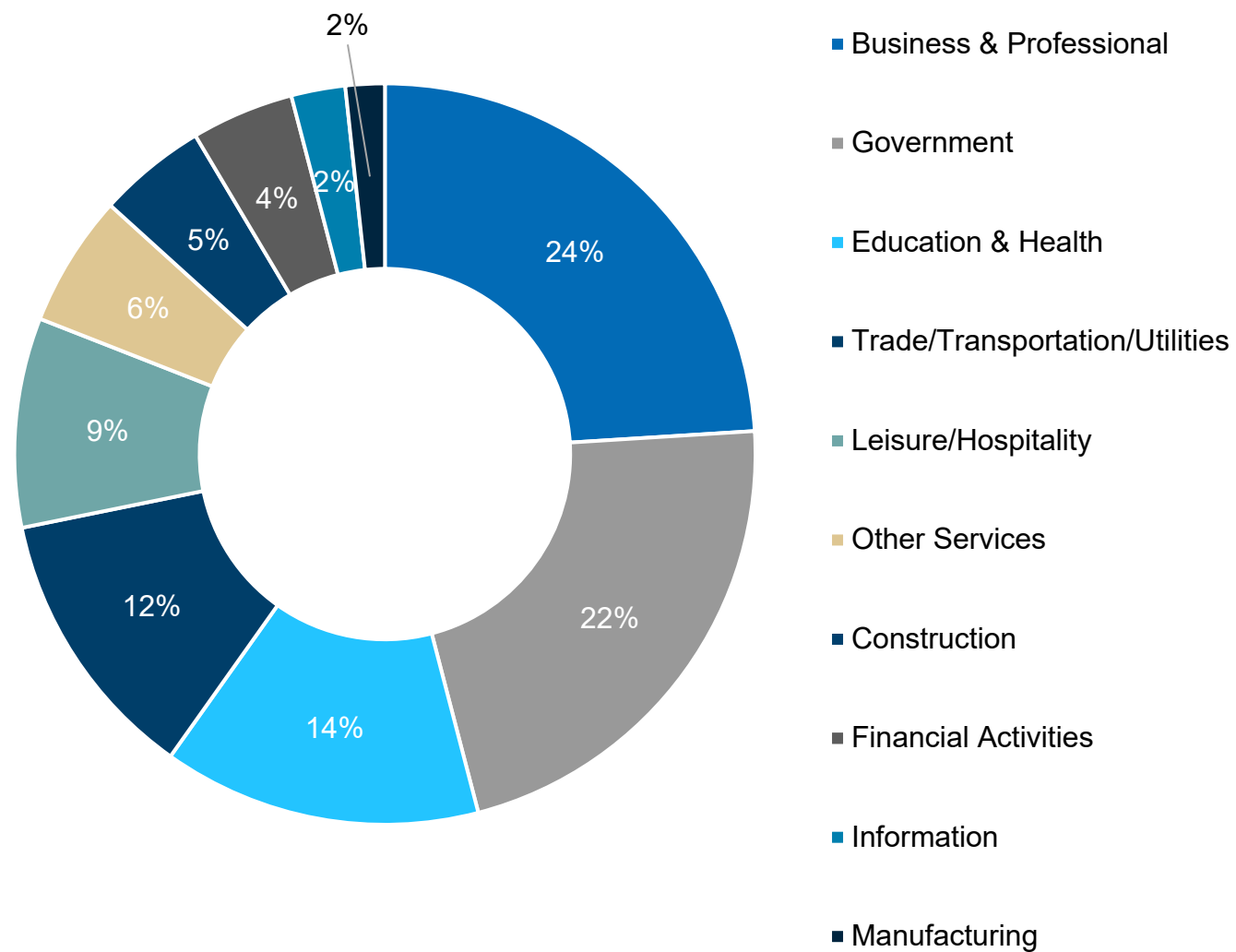
Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

# Job Growth Driven in Large Part by Education, Health, and Government

Education, Health, and Government propped up job growth in the region, leading to total nonfarm employment growth of 0.6%. 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, February 2024

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

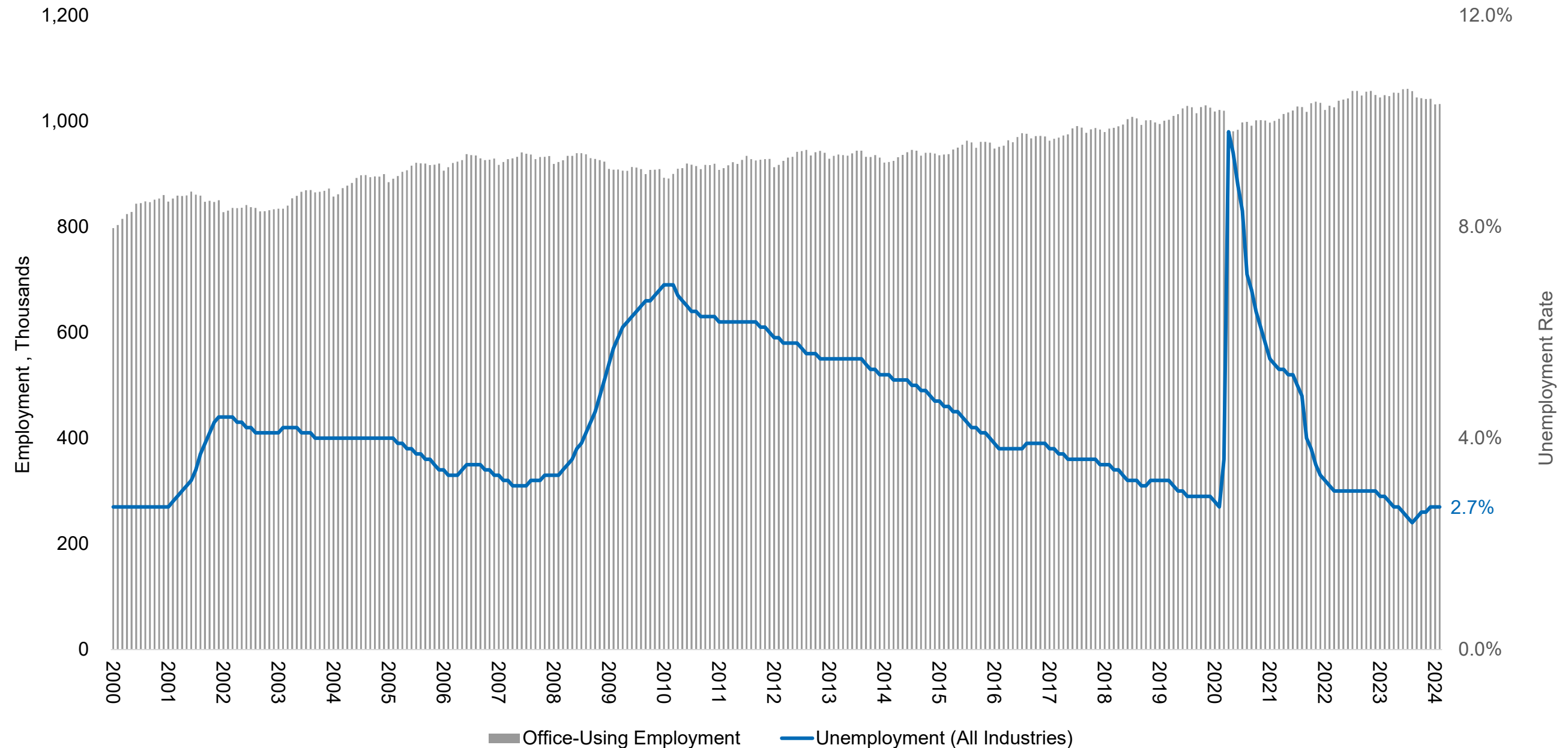


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

# 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 1.1% higher than four years ago—just before the pandemic—and 5.3% higher than the pandemic-induced employment trough in April 2020.

## Office-Using Employment\* and Unemployment Across All Industries



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

Note: February 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

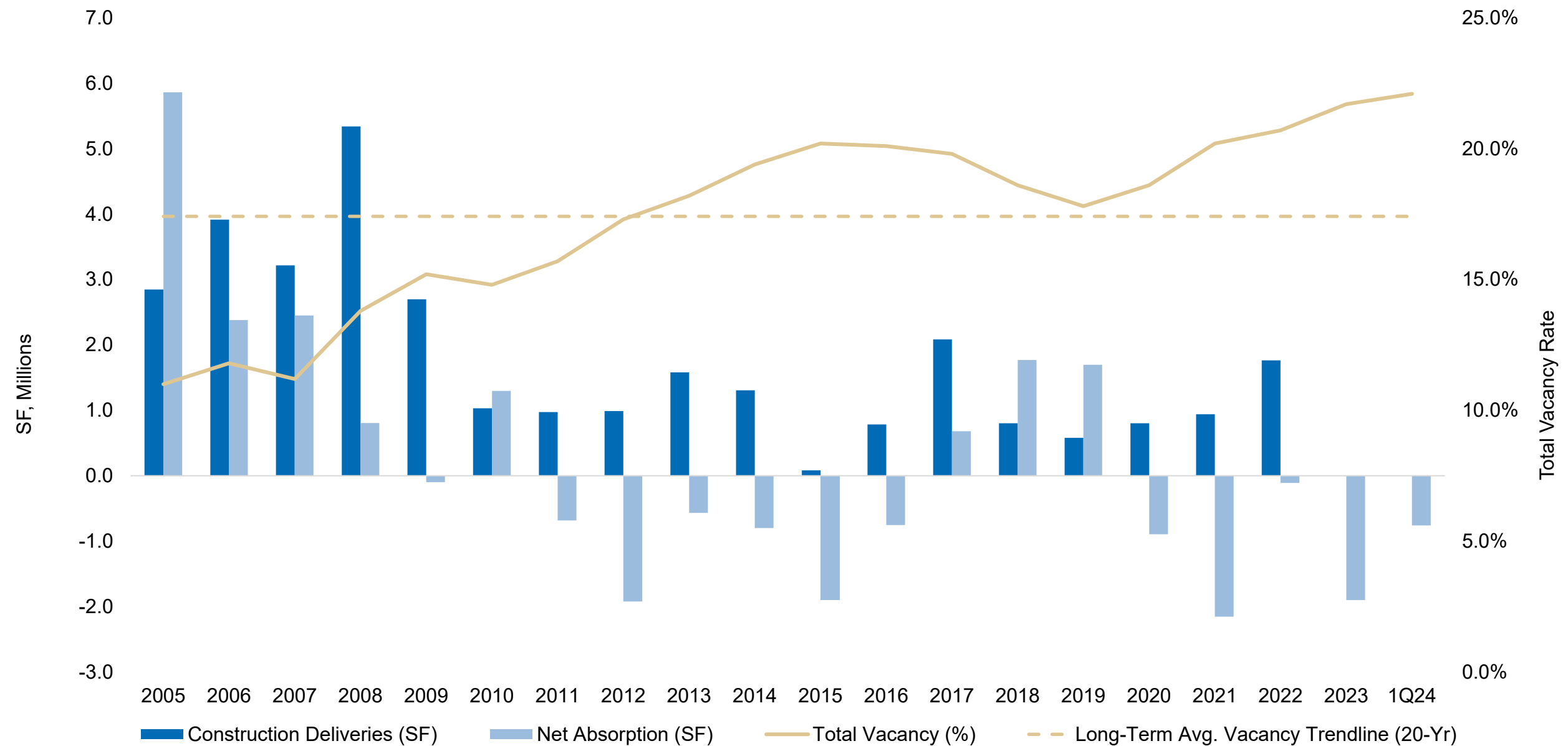




# Vacancy Rises but Construction Deliveries Slow Down

Northern Virginia's vacancy rate rose 40 basis points during the first quarter to 22.1%. However, Northern Virginia has not had any new office deliveries over the past five quarters after averaging 1.6 million square feet of annual deliveries over the past 20 years. A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

## Historical Construction Deliveries, Net Absorption, and Vacancy

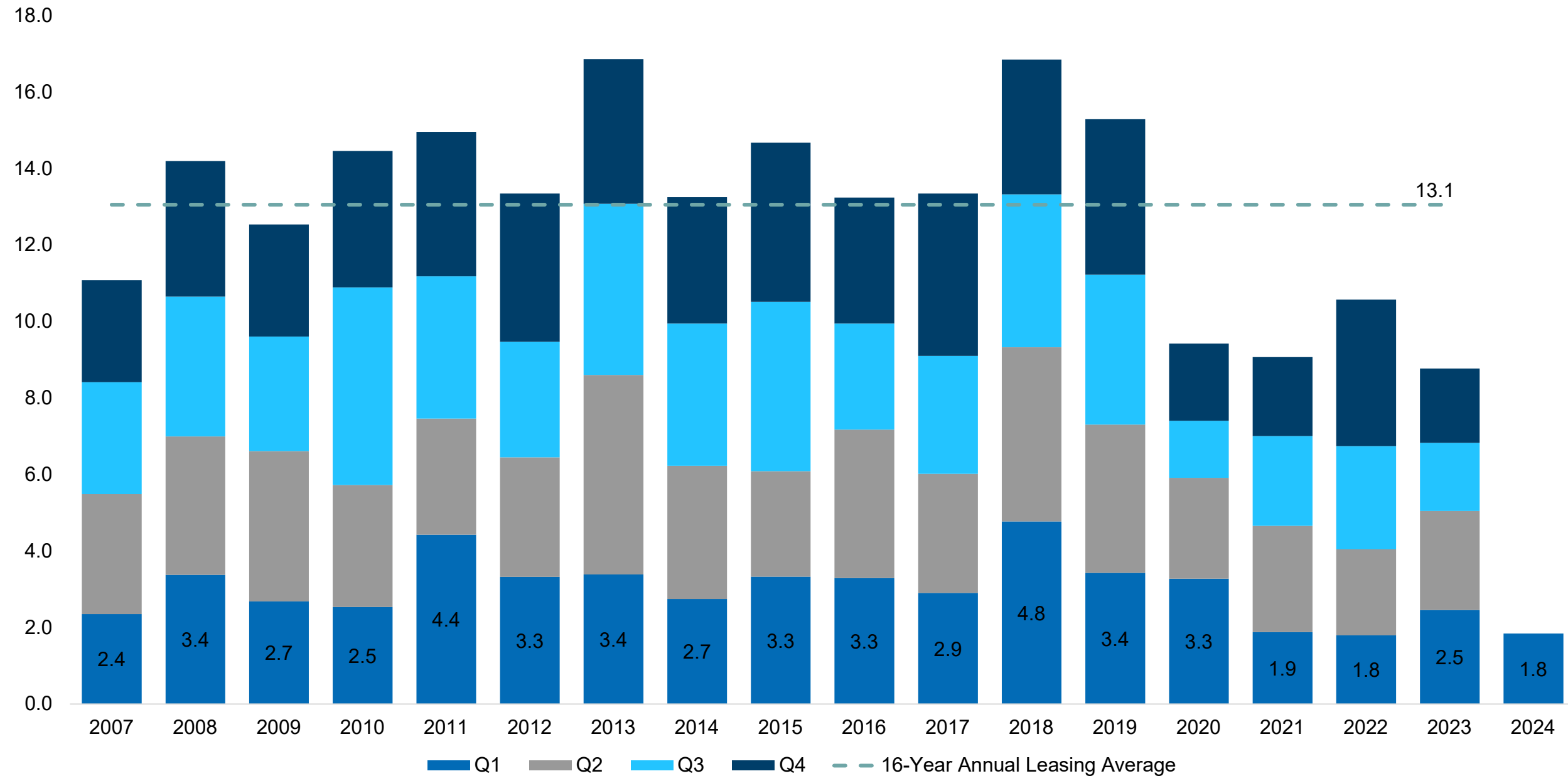


Source: Newmark Research

# Leasing Activity Has Slowed

A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. The first quarter of leasing volume for 2024 totaled 1.8 million square feet, slightly lower than the first quarter of the prior year but on par with 2021 and 2022.

Total Leasing Activity (msf)



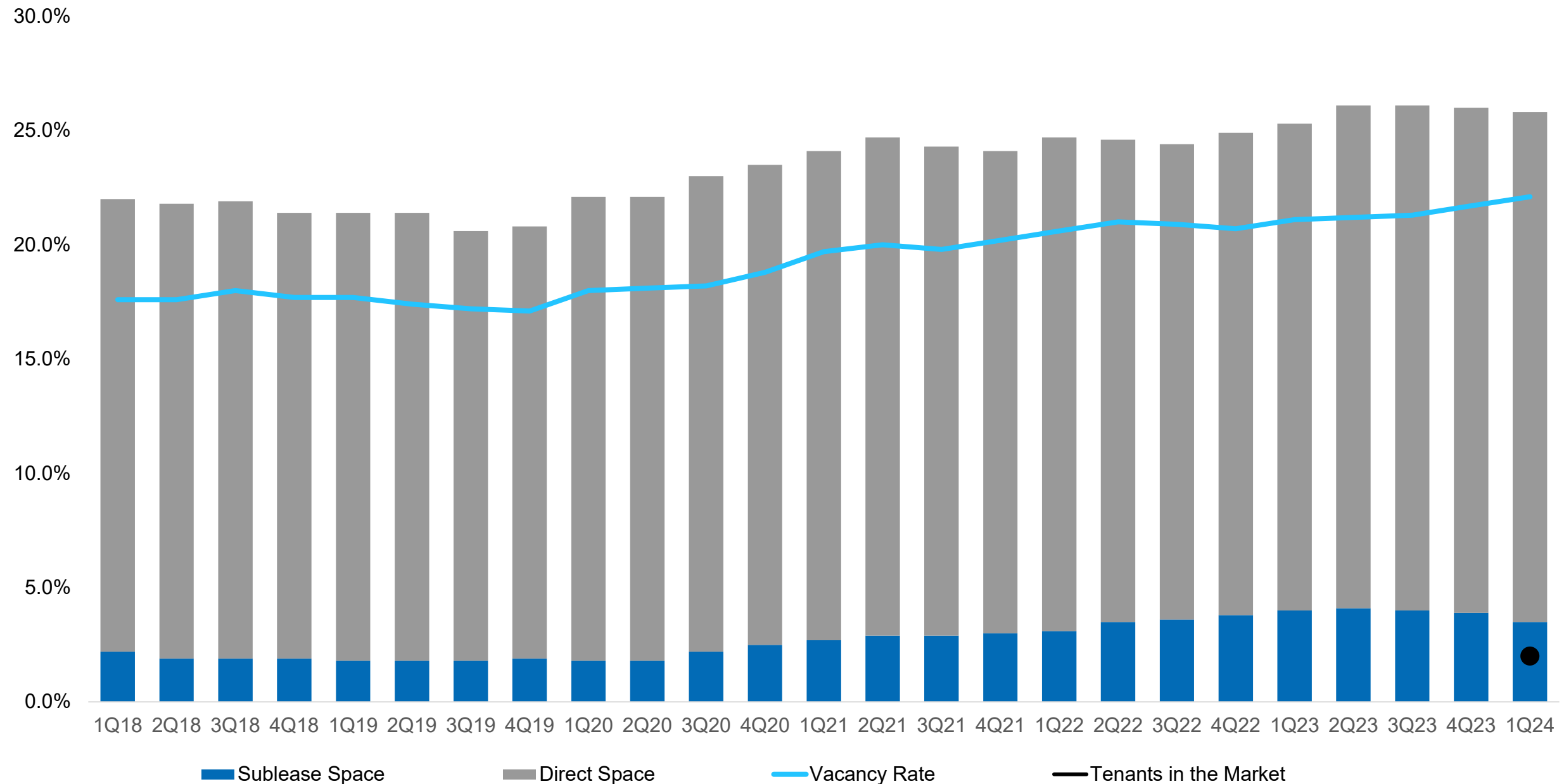
Source: Newmark Research, CoStar



# Availability Continues to Increase While Tenant Demand Drops

Available office space is near a historical high, both in terms of direct and sublease space. Over the past eight years, the direct availability rate has averaged 20.8% while the sublease availability rate has averaged 2.8%. While the 1Q24 availability rates of 22.3% for direct space and 3.5% 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.

Available Space and Tenant Demand as Percent of Overall Market

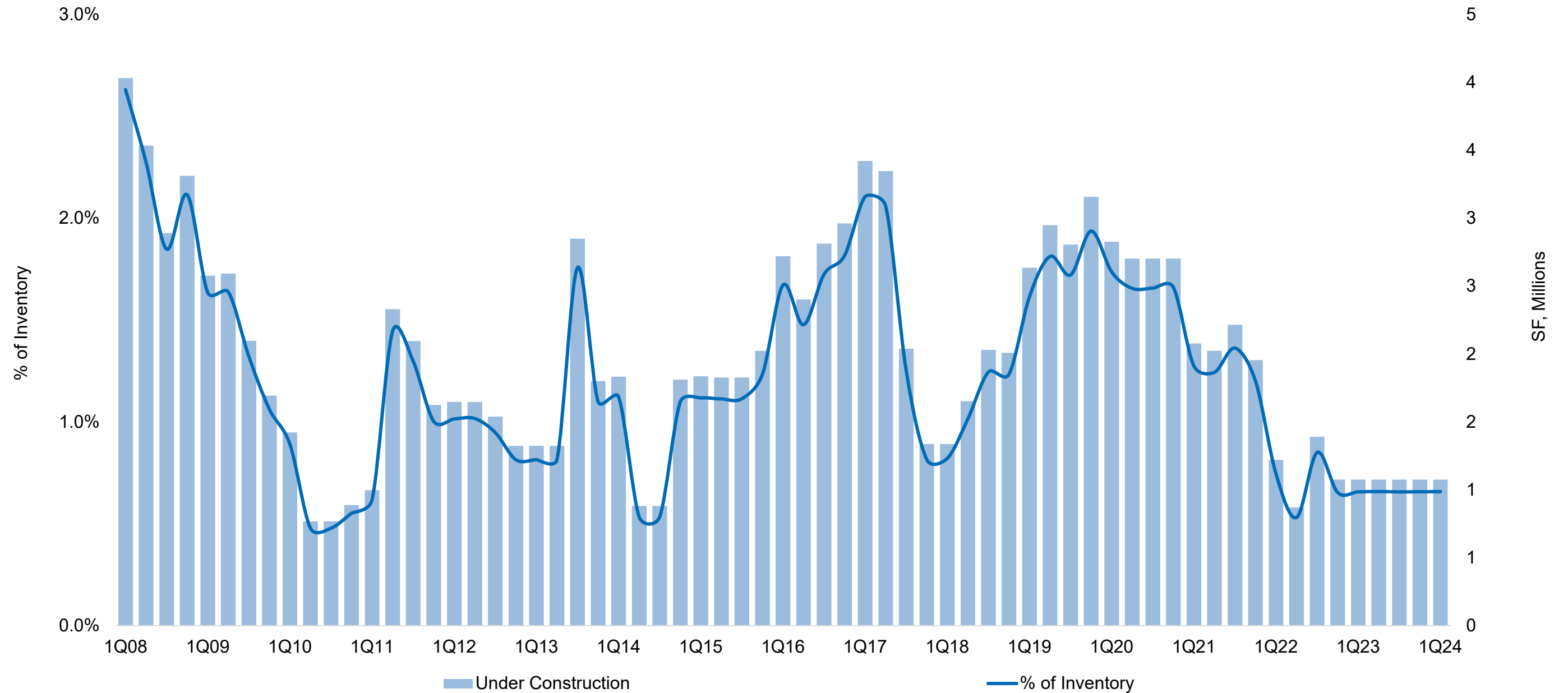


Source: Newmark Research

# Deliveries Slow as Office Construction Pipeline Tapers

Northern Virginia's development pipeline remains historically low, with no deliveries and no new projects breaking ground for the past six quarters. There are currently five office properties under construction in Northern Virginia, totaling 1.0 million square feet. With demand continuing to be limited as companies adjust to the post-COVID office environment, a lack of new supply will help ease rising vacancy.

Office Under Construction and % of Inventory



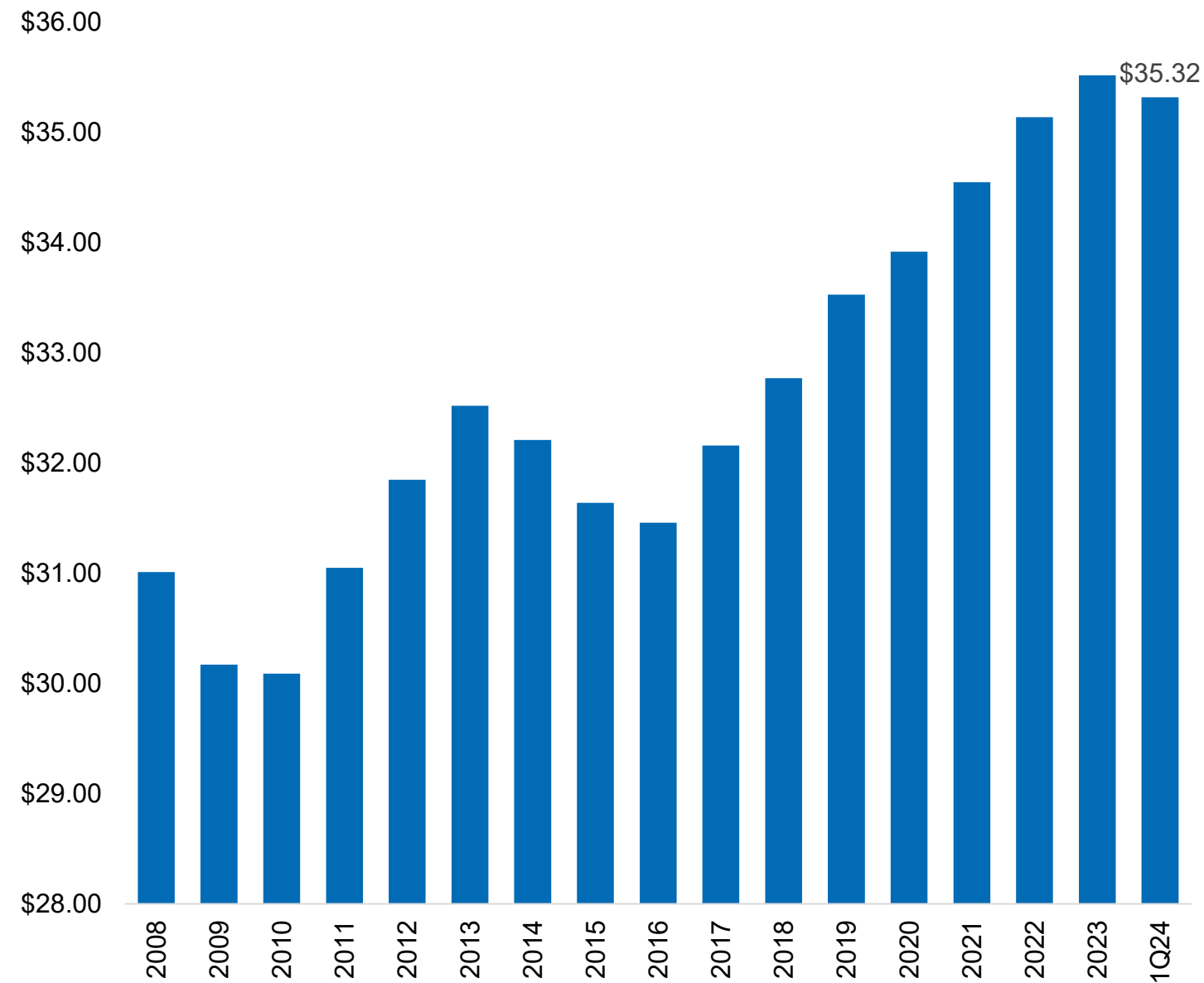
Source: Newmark Research, CoStar



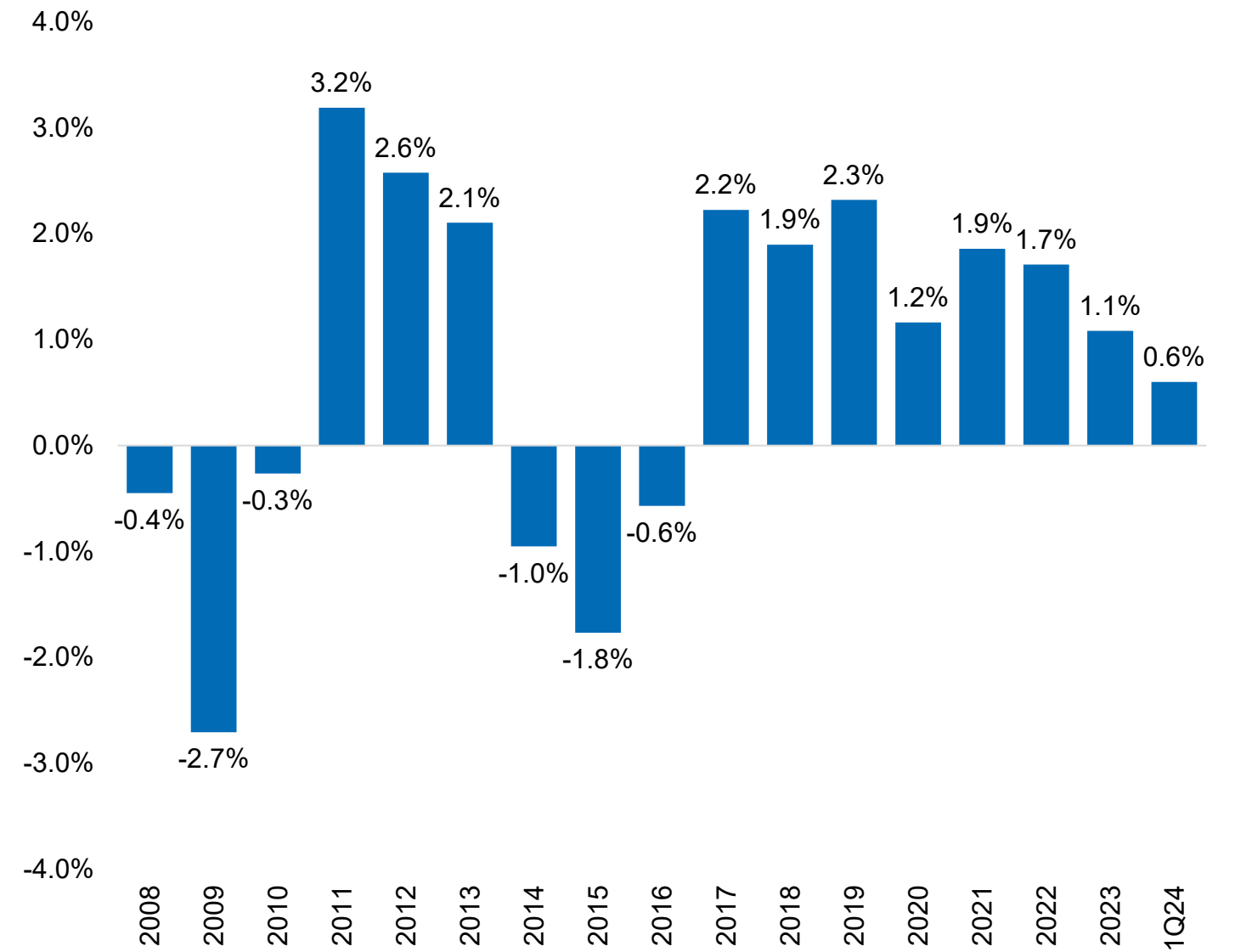
# Asking Rents See Slight Decline Amid Continued Negative Demand

In past cycles, asking rents have adjusted downward to account for depressed demand, but it often takes many quarters or even years for rates to fall, as asset owners seek to maintain face rates while increasing concessions to attract tenants. Rent growth has continued throughout the current cycle, albeit at a decelerating rate. Rents increased 0.6% over the past 12 months but declined slightly from the fourth quarter of 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

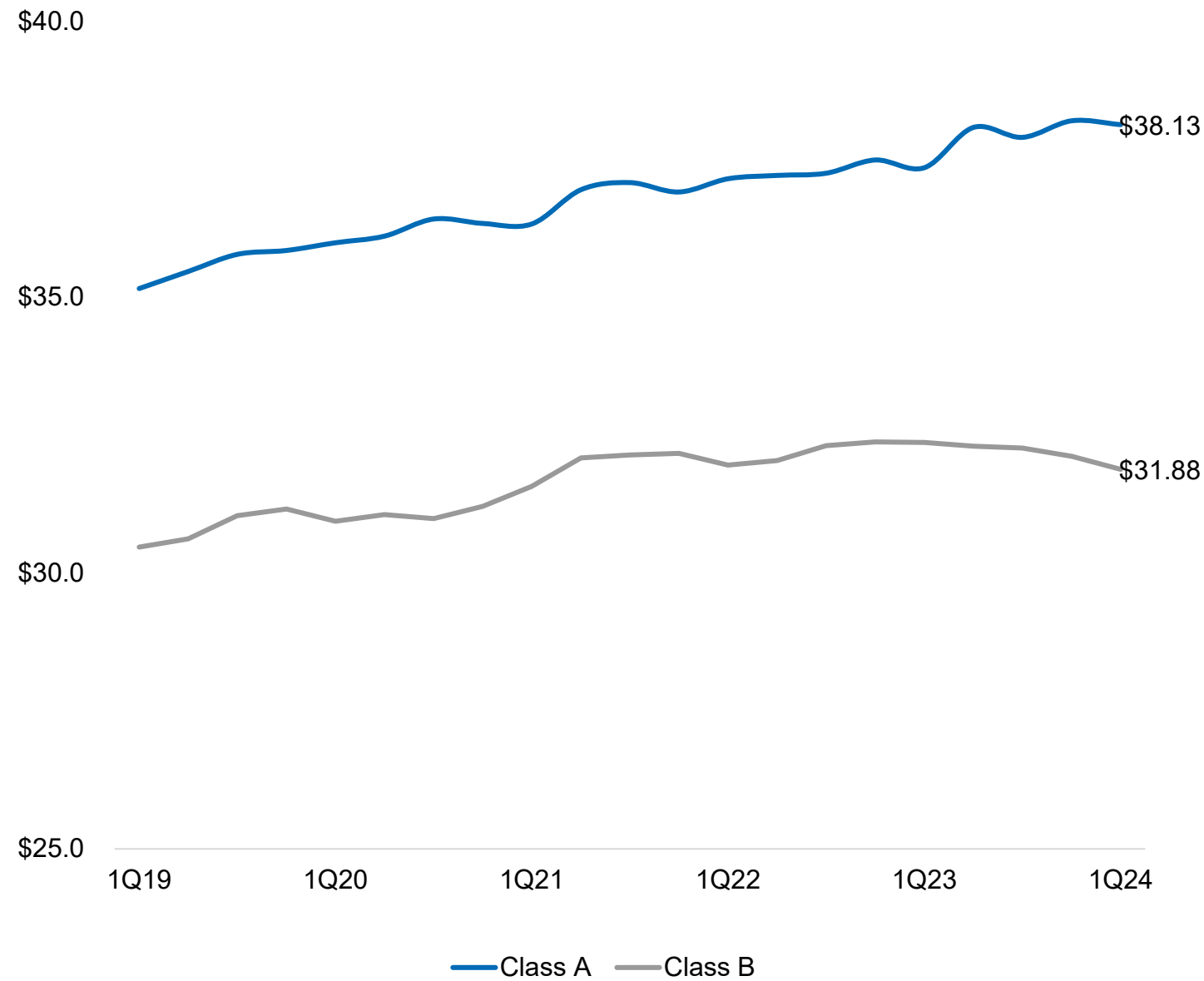


Source: Newmark Research, CoStar

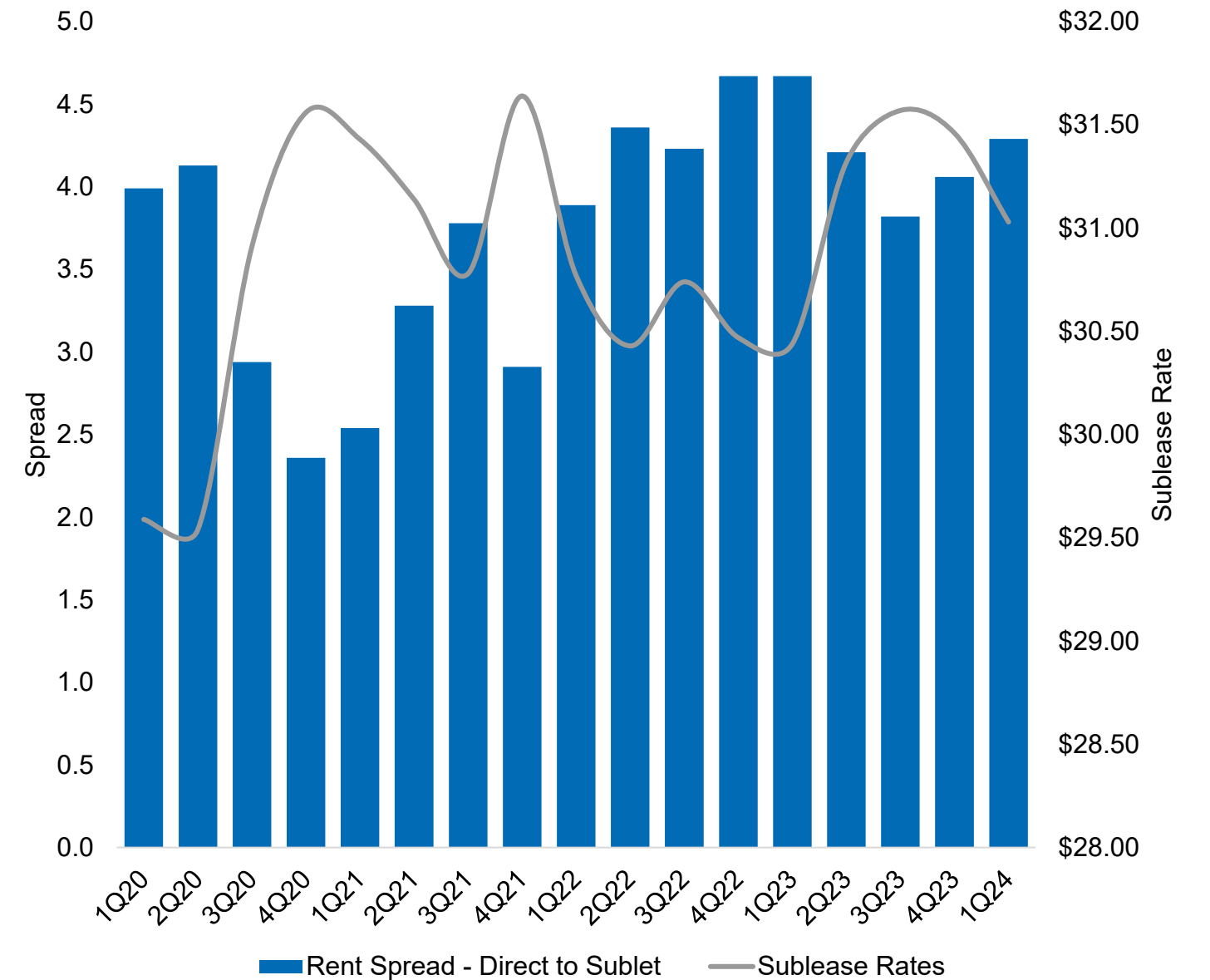
# Asking Rents Continue to Rise

While both Class A and Class B rents saw a slight decline over the quarter, Class B rents saw a greater decline, dropping 0.7% as compared with a 0.2% decline for Class A rents. This is indicative of the bifurcation of office user demand. Trophy and Class A space continues 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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# Appendix







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# Northern Virginia Submarket Overview (page 1 of 3)

## Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy	Overall Vacancy	2021 Absorption (SF)	2022 Absorption (SF)	2023 Absorption (SF)	1Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)
Class A	101,893,835	20.3%	21.9%	-1,216,756	584,940	-956,634	-460,930	-460,930
Class B	42,498,784	23.2%	24.2%	-896,103	-650,040	-668,075	-132,692	-132,692
Class C	19,028,113	18.3%	18.5%	-41,007	-43,291	-277,292	-165,811	-165,811
<b>Northern Virginia</b>	<b>163,420,732</b>	<b>20.8%</b>	<b>22.1%</b>	<b>-2,153,866</b>	<b>-108,391</b>	<b>-1,902,001</b>	<b>-759,433</b>	<b>-759,433</b>

## Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)
Class A	101,893,835	\$38.13	NA	\$38.13	0	0	1,074,817
Class B	42,498,784	NA	\$31.88	\$31.88	0	0	0
Class C	19,028,113	NA	NA	\$29.43	0	0	0
<b>Northern Virginia</b>	<b>163,420,732</b>	<b>\$38.13</b>	<b>\$31.88</b>	<b>\$35.32</b>	<b>0</b>	<b>0</b>	<b>1,074,817</b>

Source: Newmark Research

# Northern Virginia Submarket Overview (page 2 of 3)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	1Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)	1Q 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Ballston	7,645,994	21.8%	23.7%	-34,246	-34,246	0	0	191,034	\$41.04
Clarendon/Courthouse	4,550,562	32.2%	37.0%	-99,043	-99,043	0	0	0	\$42.72
Crystal City/Pentagon City	12,323,517	26.0%	27.9%	-111,428	-111,428	0	0	0	\$39.27
Eisenhower Avenue	1,313,328	51.5%	51.5%	-1,956	-1,956	0	0	0	\$28.42
Fairfax Center	9,674,993	22.1%	23.3%	-75,096	-75,096	0	0	0	\$28.17
Gainesville	247,772	8.6%	8.6%	0	0	0	0	0	\$26.32
Herndon	10,546,395	26.9%	27.8%	-39,871	-39,871	0	0	0	\$32.66
I-395 Corridor - Alexandria	1,784,916	17.6%	17.7%	-10,540	-10,540	0	0	0	\$32.48
I-395 Corridor - Arlington	1,595,158	7.7%	9.3%	866	866	0	0	0	\$30.11
I-395 Corridor - Fairfax	4,195,444	31.5%	32.1%	7,623	7,623	0	0	0	\$28.66
Manassas	2,802,379	5.2%	5.3%	10,347	10,347	0	0	0	\$24.77
Merrifield	8,217,732	14.7%	16.0%	-67,084	-67,084	0	0	0	\$31.59
Old Town Alexandria	10,964,095	14.7%	16.2%	-37,909	-37,909	0	0	0	\$38.18

Source: Newmark Research

# Northern Virginia Submarket Overview (page 3 of 3)

## Submarket Statistics – All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	1Q 2024 Absorption (SF)	YTD 2024 Absorption (SF)	1Q 2024 Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Overall Asking Rent (Price/SF)
Reston	18,357,688	21.5%	23.2%	-94,746	-94,746	0	0	573,142	\$33.65
Rosslyn	9,068,690	21.6%	22.8%	8,122	8,122	0	0	0	\$43.62
Rt. 28 North	5,778,791	13.3%	14.0%	-11,324	-11,324	0	0	0	\$26.50
Rt. 28 South	12,814,652	16.1%	16.3%	37,779	37,779	0	0	0	\$28.58
Rt. 7 Corridor	5,162,290	11.0%	12.7%	20,255	20,255	0	0	0	\$29.10
Springfield	4,824,339	22.3%	22.4%	-61,530	-61,530	0	0	0	\$30.85
Stafford County	847,068	22.7%	22.7%	-5,525	-5,525	0	0	0	\$28.56
Tysons Corner	27,585,076	22.8%	24.2%	-184,081	-184,081	0	0	0	\$38.60
Virginia Square	1,030,321	25.3%	27.2%	-20,625	-20,625	0	0	310,641	\$42.85
Western Loudoun County	795,188	2.4%	6.9%	-1,344	-1,344	0	0	0	\$31.47
Woodbridge	1,294,344	7.1%	7.1%	11,923	11,923	0	0	0	\$30.52
<b>Northern Virginia</b>	<b>163,420,732</b>	<b>20.8%</b>	<b>22.1%</b>	<b>-759,433</b>	<b>-759,433</b>	<b>0</b>	<b>0</b>	<b>1,074,817</b>	<b>\$35.32</b>

Source: Newmark Research



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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

**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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