
2Q24

Northern Virginia Office Market Overview



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Market Observations

Economy

- The region’s labor market remains strong amid shifting macroeconomic conditions. May’s 2.8% unemployment rate remains significantly lower than the region’s ten-year historical average of 3.9%. Furthermore, the Washington DC metro’s unemployment rate is 120 basis points lower than the national rate.
- Year-over-year, job gains were most pronounced in Education & Health, posting a gain of 3.1%. Furthermore, the Government sector also experienced notable job gains, increasing 2.1% 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 2.5% higher than four years ago—just prior to the pandemic—and 6.7% 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.
- The most noteworthy sale transaction of the quarter was 11350 Random Hills Road, which was sold by Novel Office to Ben Goldfield. The 180,000-square-foot, 9-story office building located within the Fairfax Center submarket was sold for \$27.8 million, or \$151.24 PSF. Known as Fair Oaks Plaza, the property was 86% occupied at the time of sale and was purchased by the buyer as a long-term investment. The seller, Novel Office, purchased the property in 2022, leased over 90,000 SF of the space, and then sold the building for a profit less than two years later, highlighting that there are still opportunities within office product in the current economic environment.

Leasing Market Fundamentals

- Net absorption for the region totaled negative 1.0 million square feet during Q2 2024, with the negative absorption spread out among many submarkets. Overall vacancy expanded to 22.9%, up 80 bps quarter-over-quarter and 180 bps year-over-year. Availability also expanded, ending Q2 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 the largest deal in Fairfax Center, the second and third largest deals occurring in Rt. 28 South, and the fourth largest deal occurring in Ballston. Furthermore, renewals were a theme of Q2 2024, with the four largest deals being lease renewals.
- Rents have taken a step back during the first half of 2024, ending Q2 2024 at \$35.27, a decrease of 0.7% since the end of 2023.
- After two deliveries totaling 467,000 SF during the quarter, the office construction pipeline ended Q2 2024 at three properties totaling 608,000 SF.

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 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.

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

2Q24

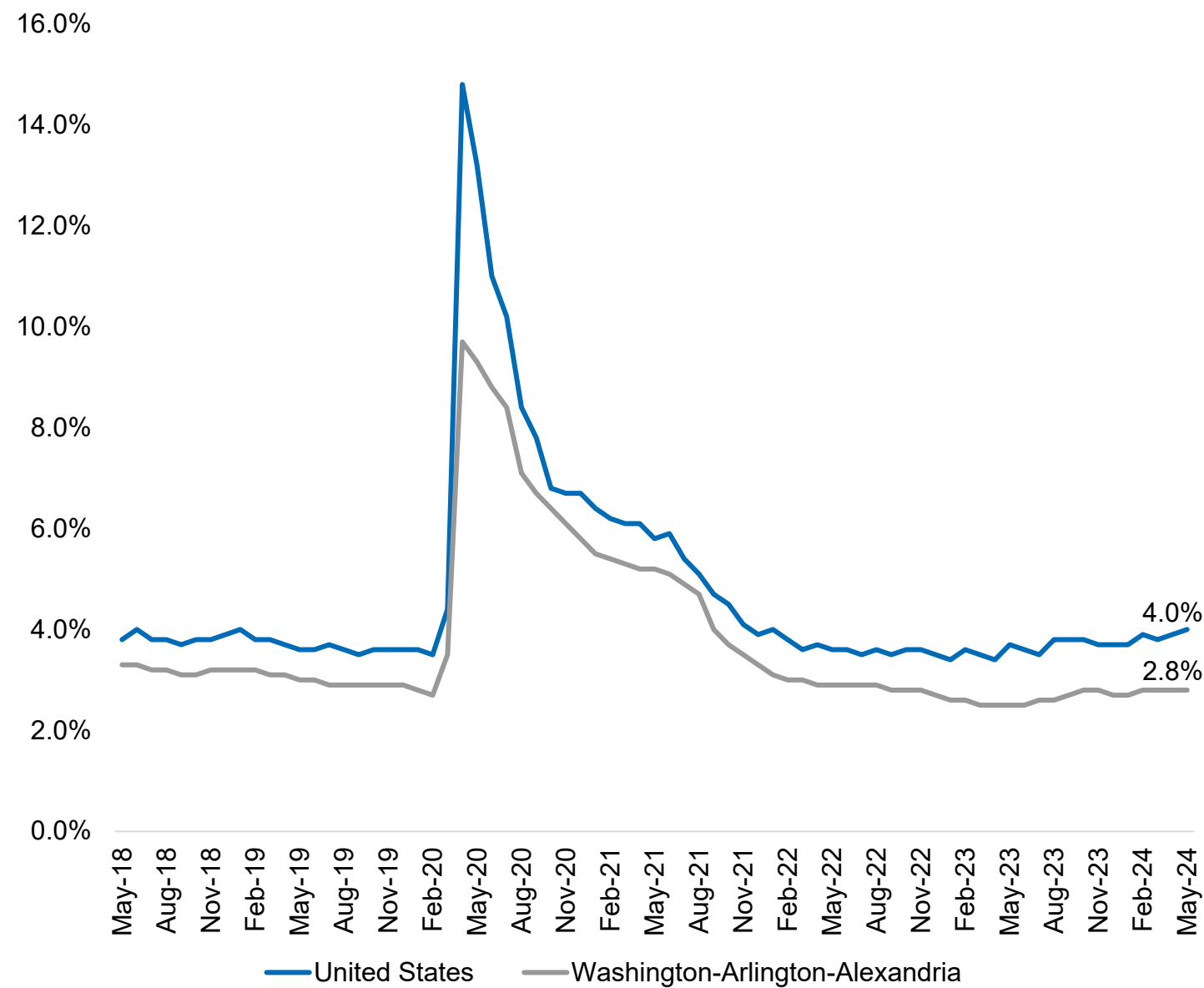
Economy



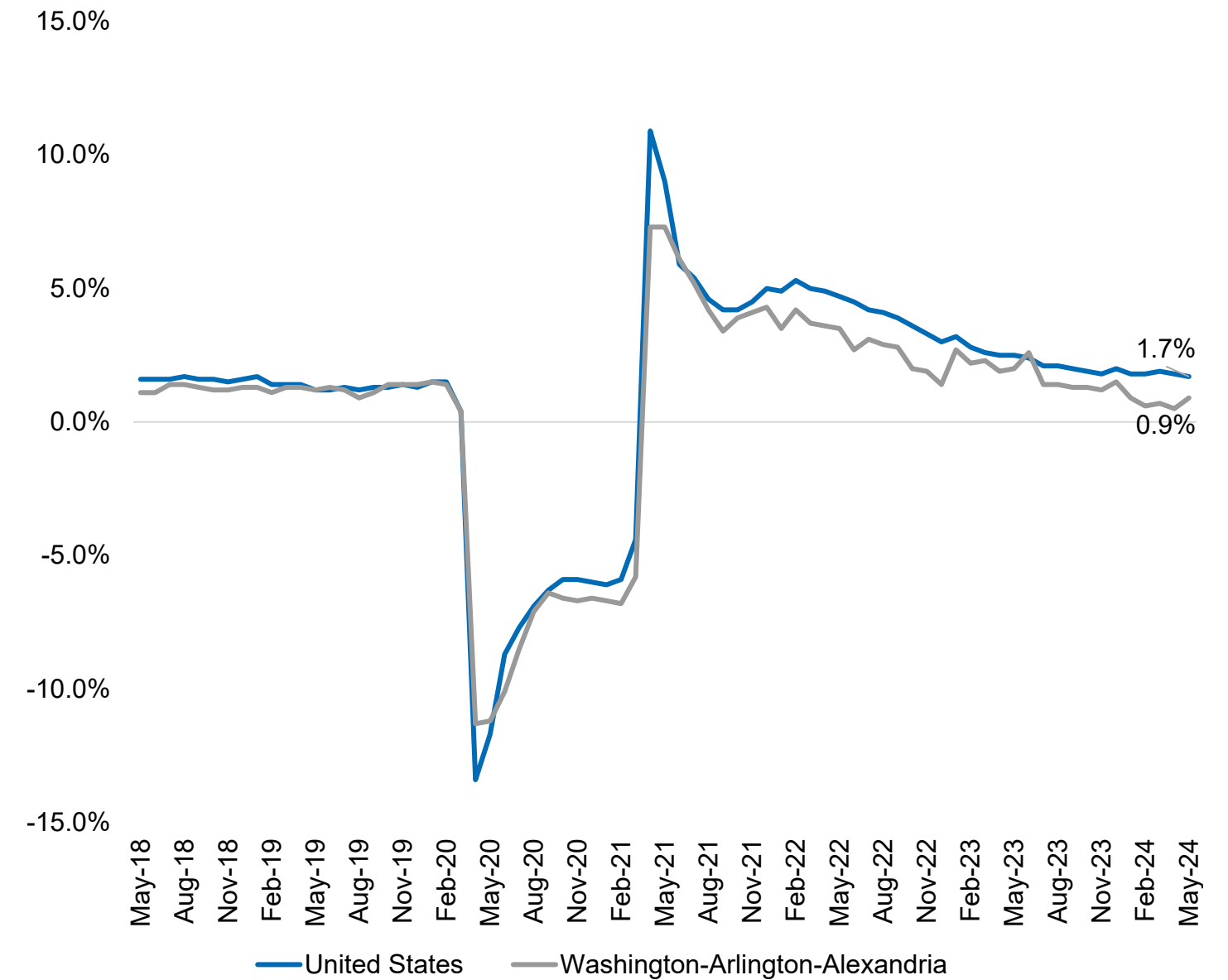
Metro Employment Job Growth Remains Positive Despite Slowing

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

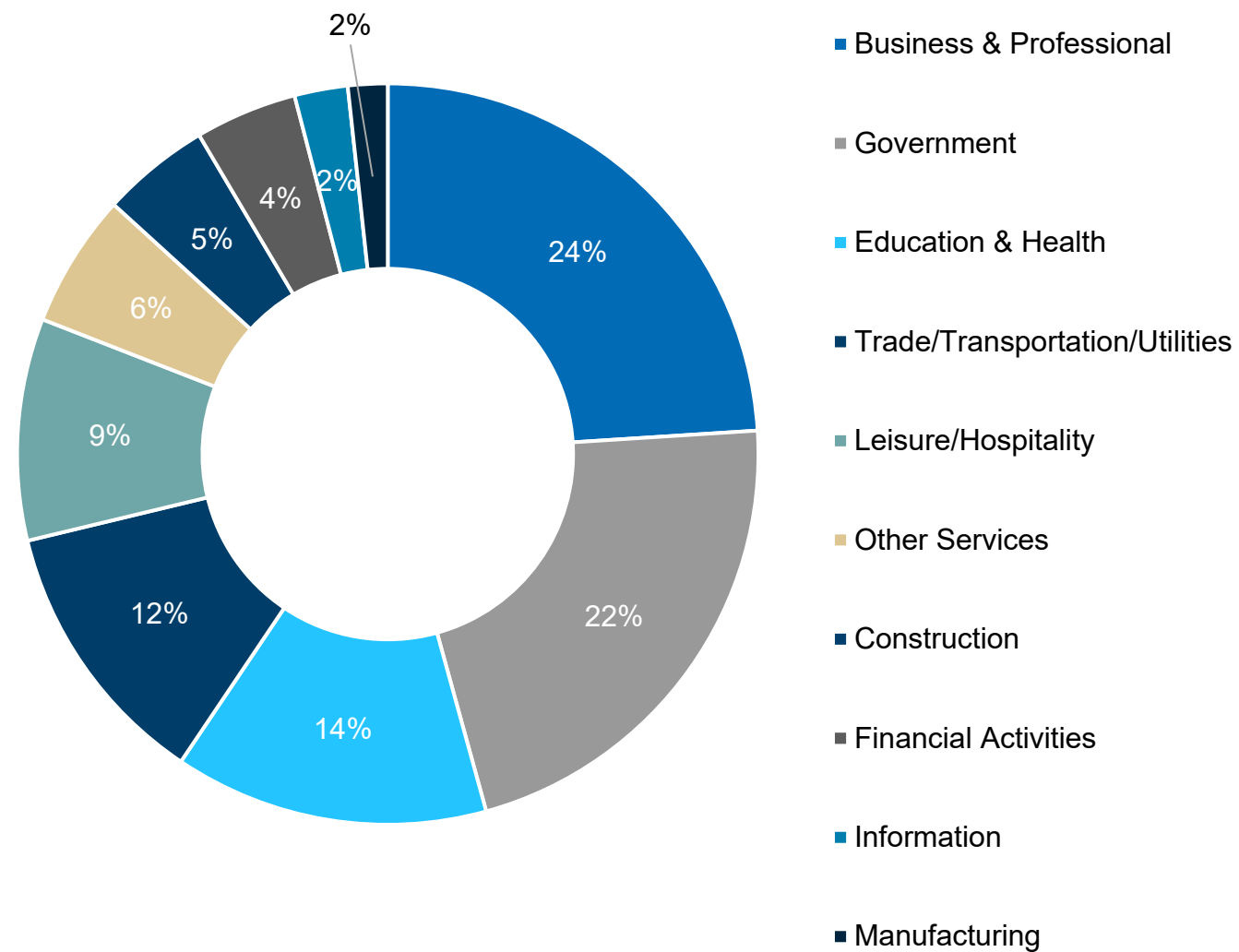


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

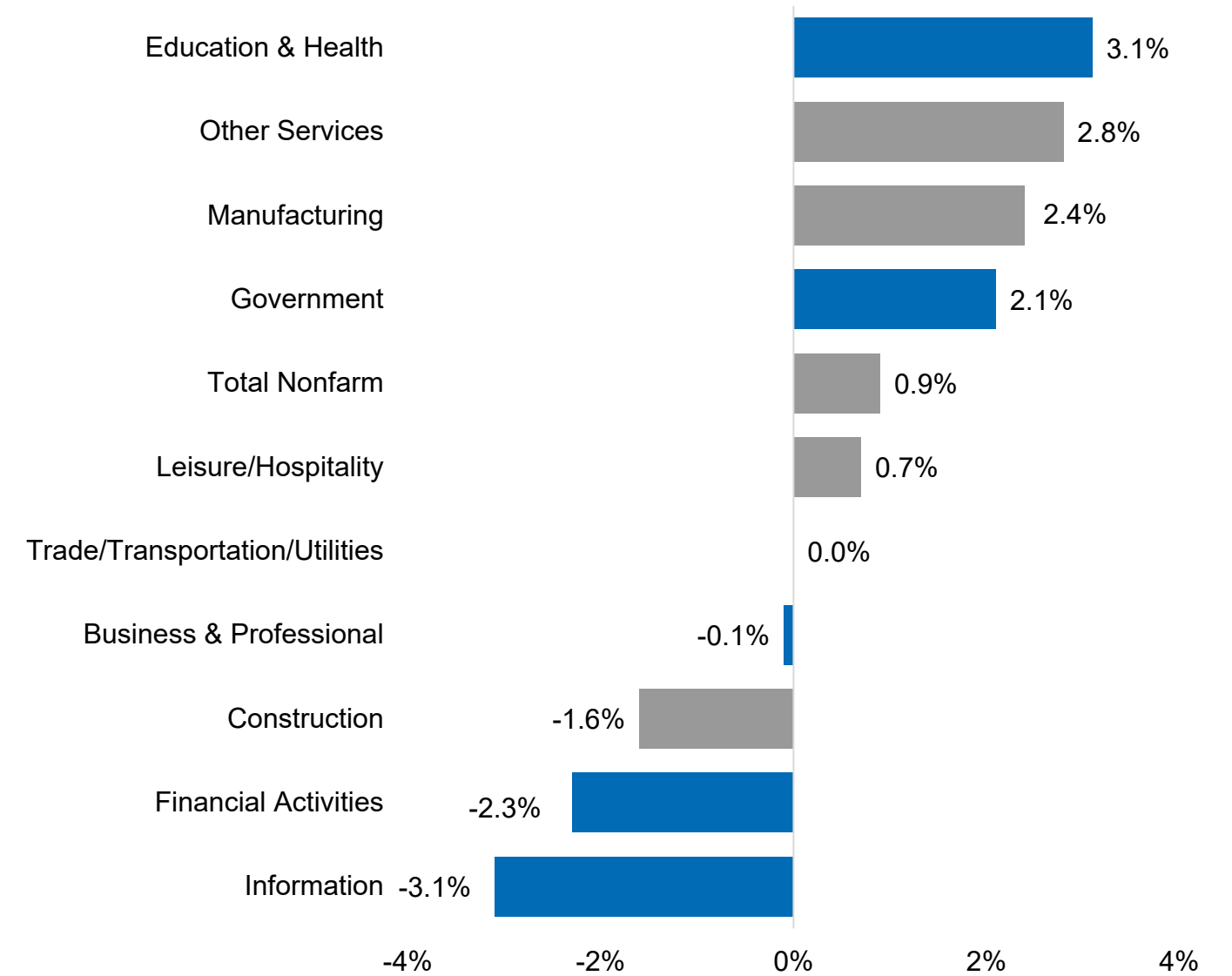
Job Growth Driven in Large Part by Education, Health, and Government

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

Employment by Industry, May 2024



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

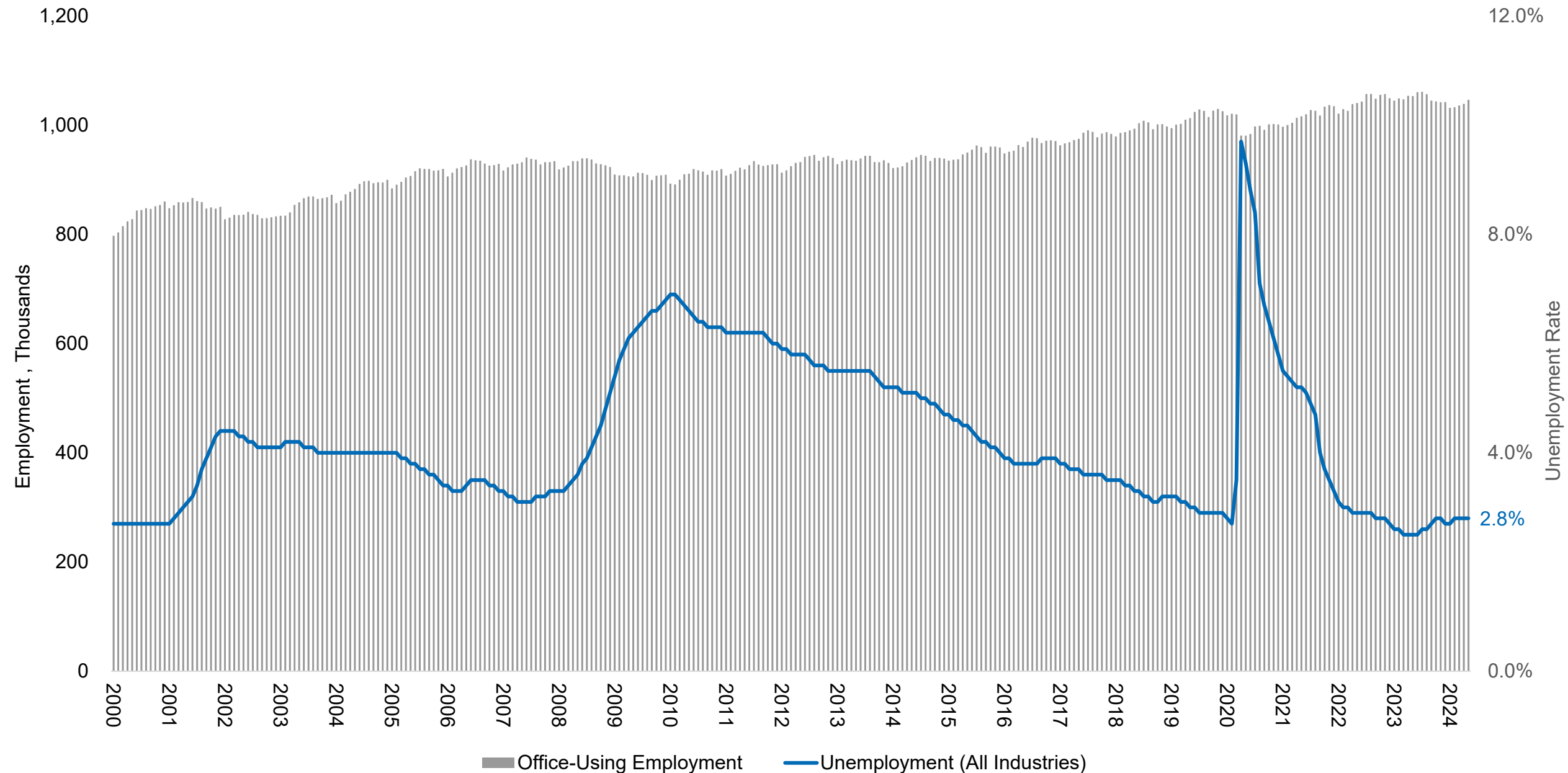


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

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 2.5% higher than four years ago—just before the pandemic—and 6.7% 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: May 2024 data is preliminary.

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

2Q24

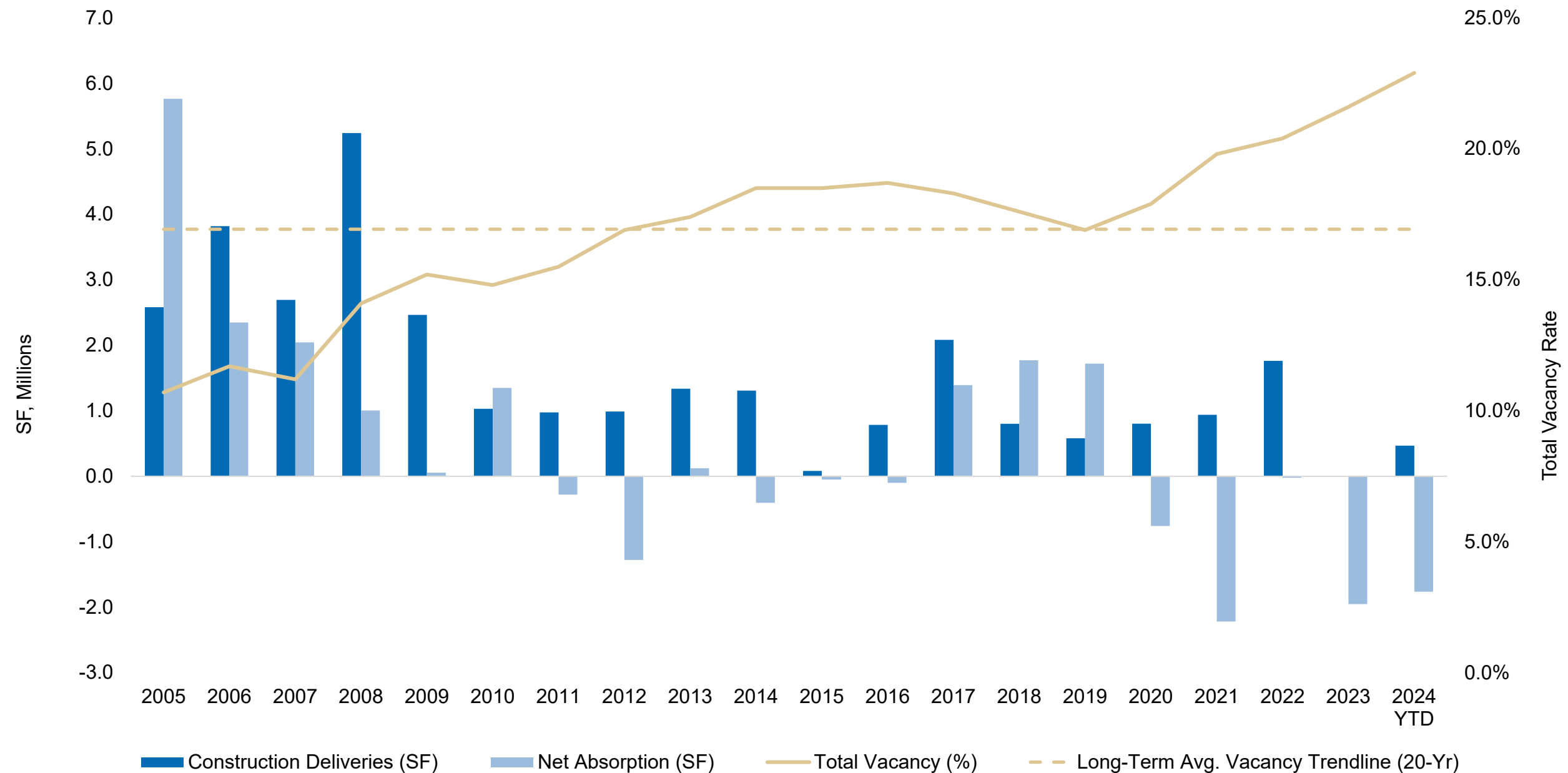
Leasing Market Fundamentals



Market Continues to See Vacancies Rise Alongside a Slowdown in Development

Northern Virginia's vacancy rate has risen 130 basis points during the first half of 2024, ending Q2 at 22.9%. This is after the market experienced almost 1.8 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

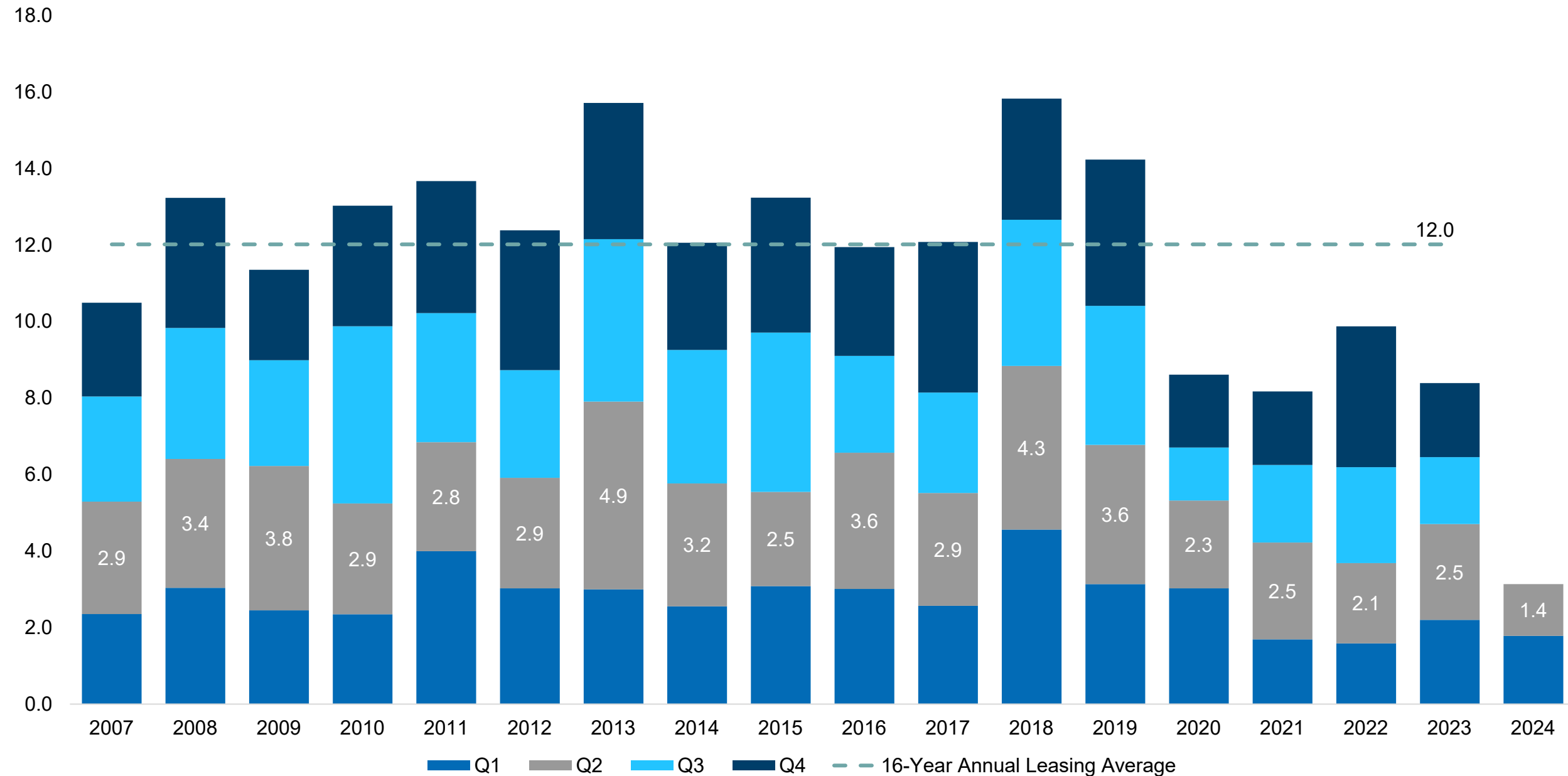


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Leasing Activity Historically Slow During First Half of 2024

Leasing activity during Q2 2024 totaled 1.4 million square feet, the lowest level of second-quarter activity the market has experienced during the past 16 years. Overall, throughout the first half of 2024, the market has seen 3.1 MSF of leasing activity, which is historically slow for the market.

Total Leasing Activity (msf)

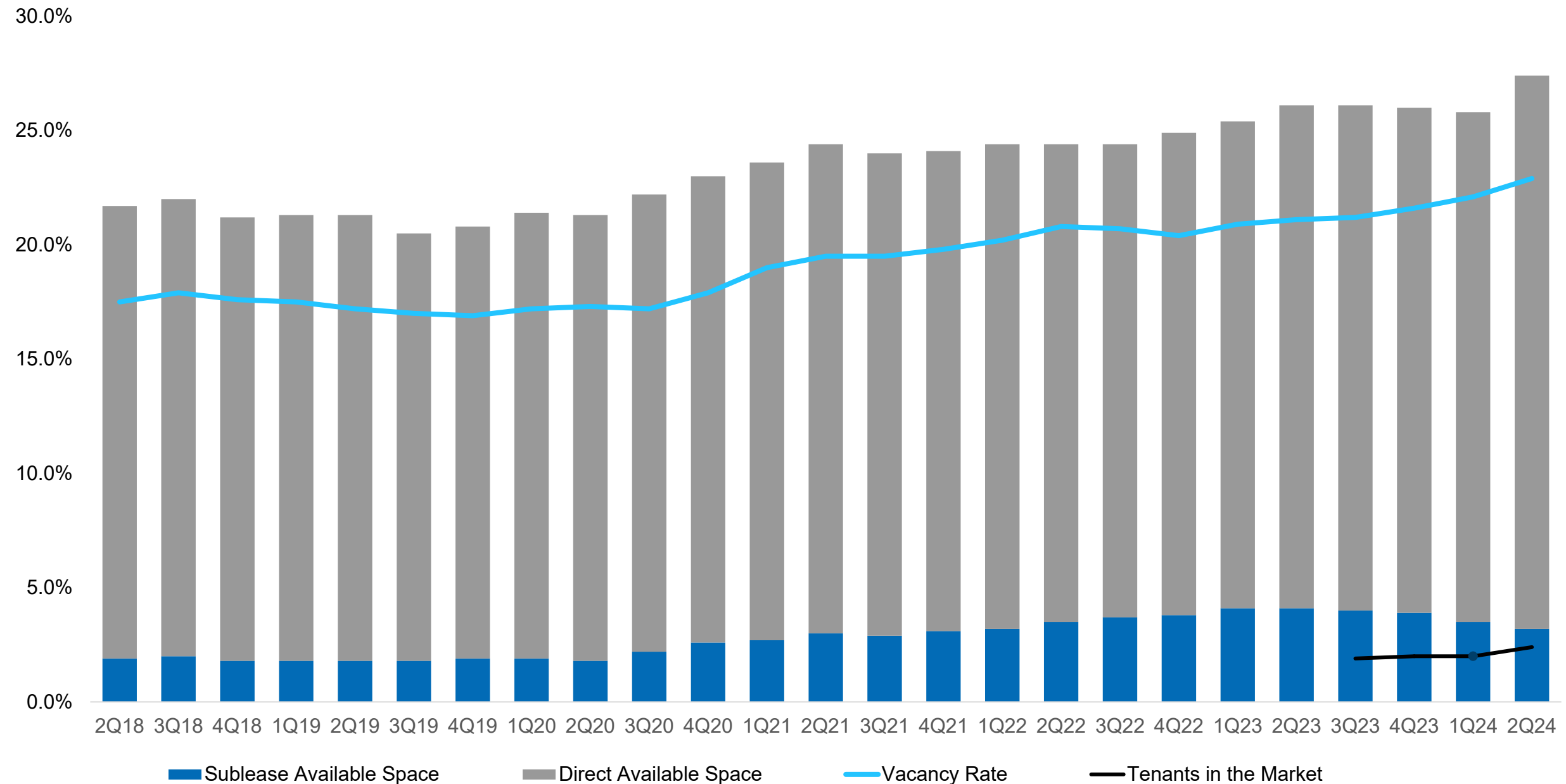


Source: Newmark Research, CoStar

Vacancy Reaches Historic Highs

Available office space ended Q2 2024 at a historic high of 27.4%, an increase of 160 bps quarter-over-quarter. Over the past six years, the direct availability rate has averaged 20.7% while the sublease availability rate has averaged 2.8%. While the Q2 2024 availability rates of 24.2% for direct space and 3.2% 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 Q2 2024 at a historical high of 22.9%, up 80 bps quarter-over-quarter and 180 bps year-over-year.

Available Space and Tenant Demand as Percent of Overall Market

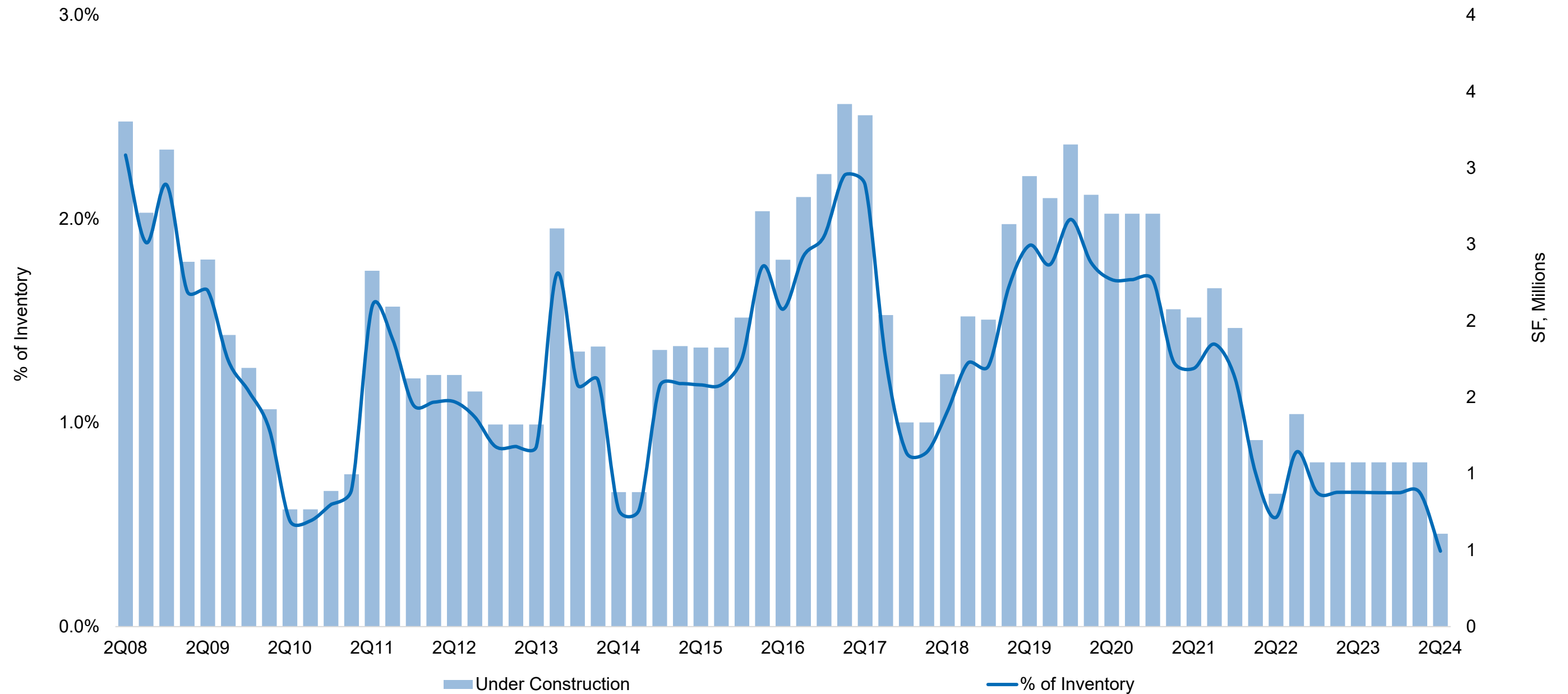


Source: Newmark Research, CoStar

Despite Recent Deliveries, Development at Historic Lows

Northern Virginia saw two properties totaling 470,000 SF deliver during Q2 2024. Despite this, the market's development pipeline remains historically low, with only three properties totaling 600,000 SF under construction to end Q2 2024. 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

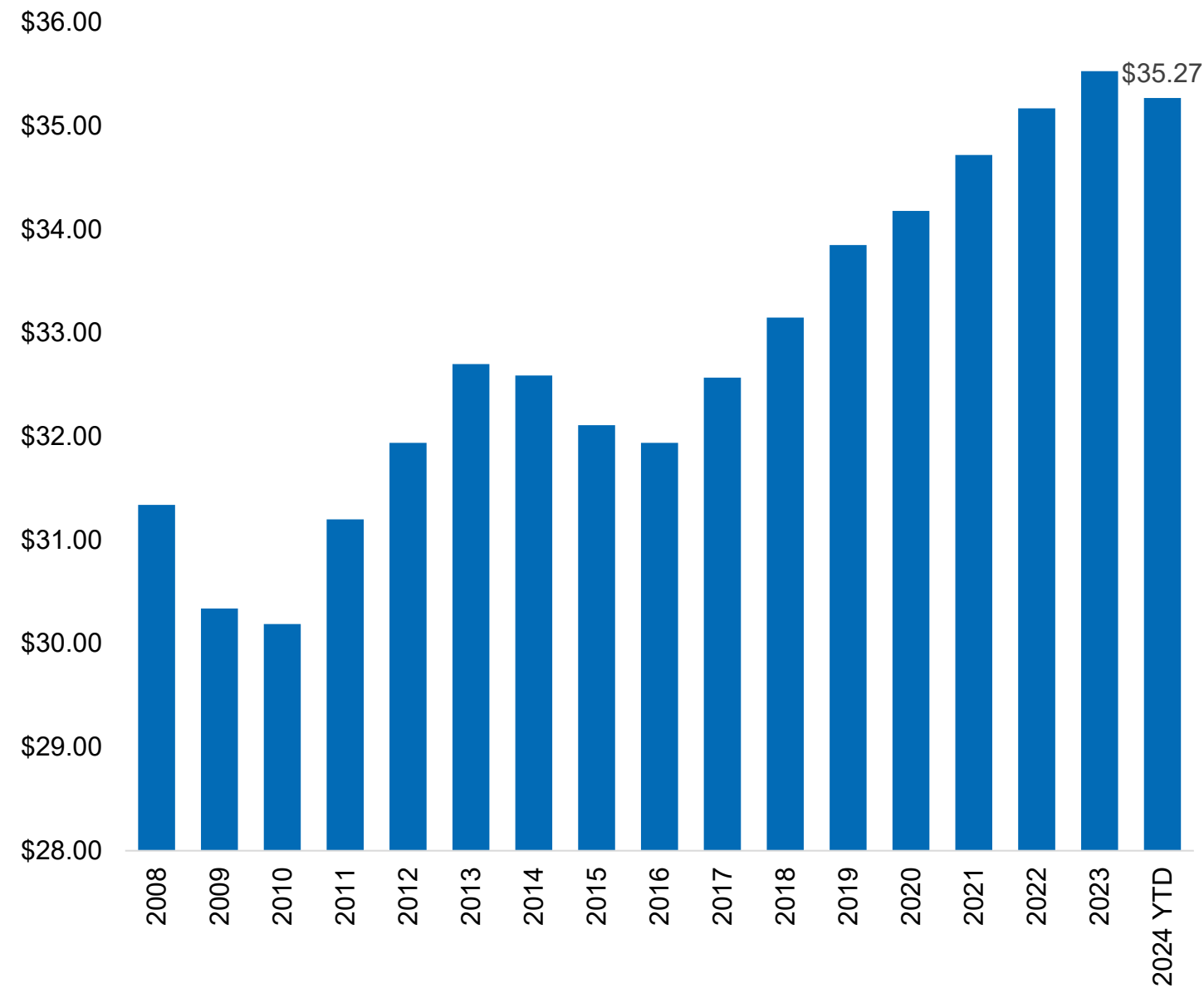


Source: Newmark Research, CoStar

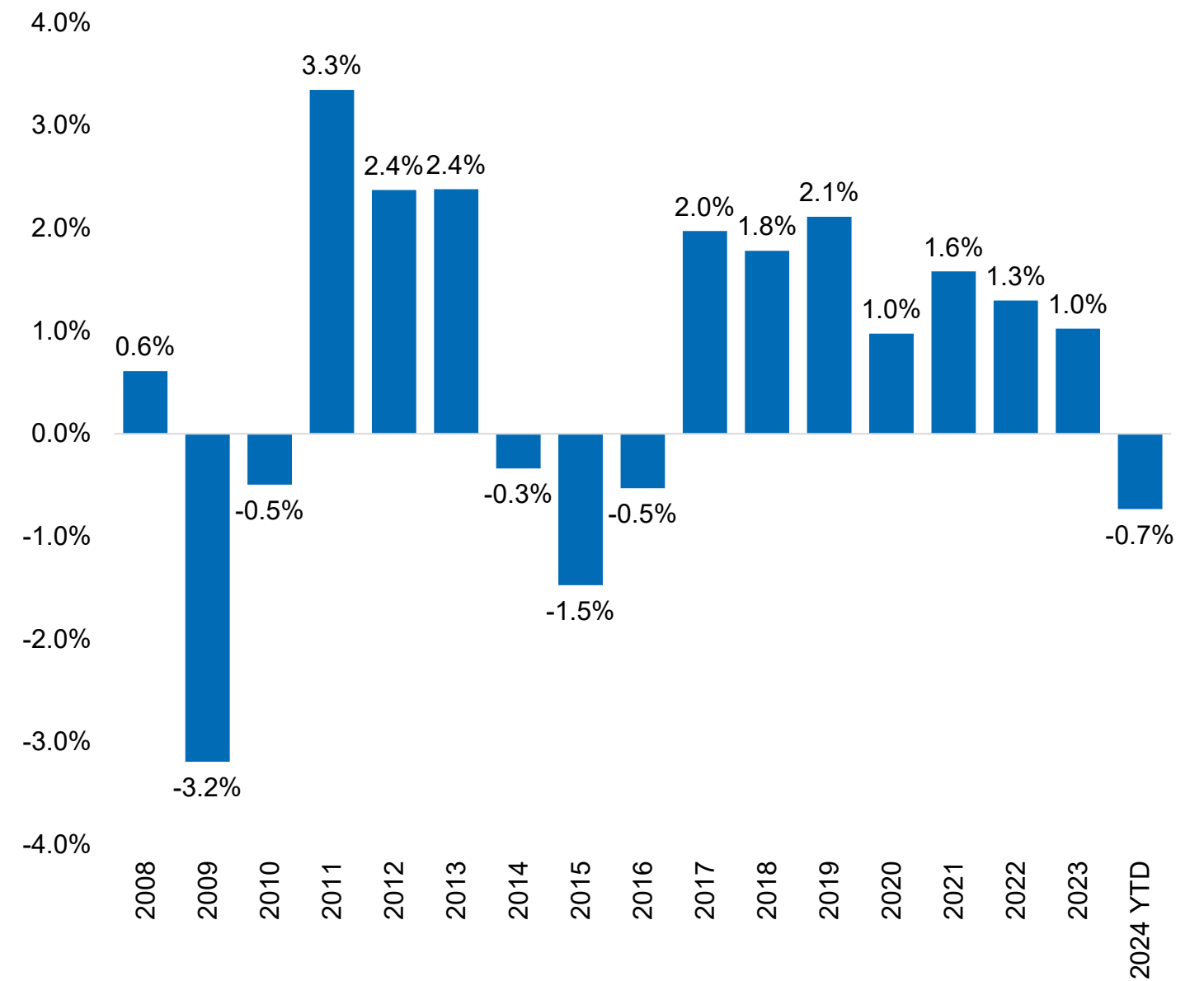
Asking Rents Decline Amid Continued Negative Demand

Office rents showed consistent growth over the past few years despite a challenging economic environment and depressed demand. This has changed so far in 2024, where demand has depressed to the point that rents have been pushed downward. Rents ended Q2 2024 at \$35.27 PSF, a decrease of 0.7% since the end of 2023.

Office Average Asking Rent, \$/SF, FS



Year-over-Year Asking Rent Growth Rate

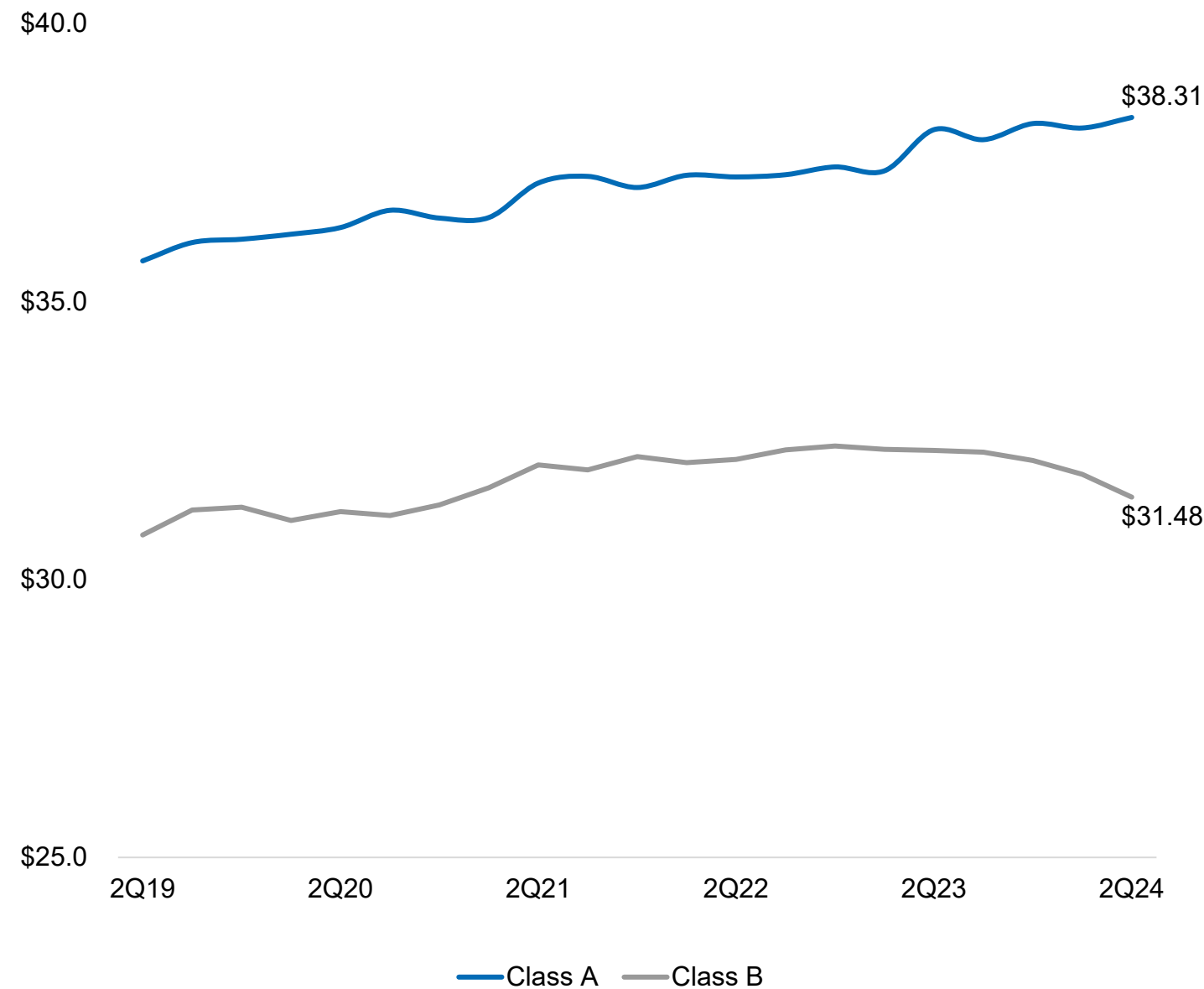


Source: Newmark Research, CoStar

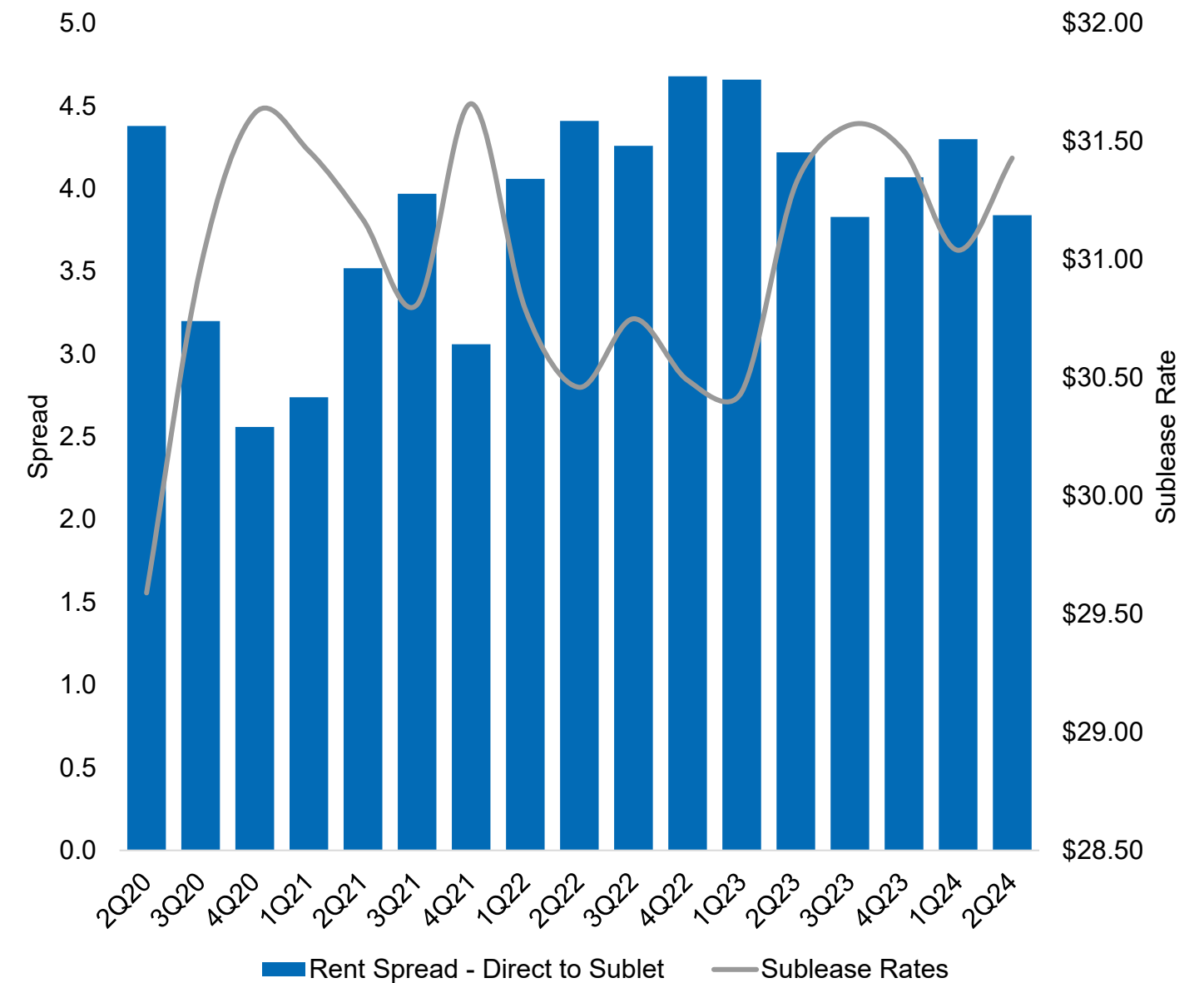
Market Experiencing Bifurcation Between Class A and Class B Rents

Class B rents largely contributed to overall rent declines in the market, while Class A rents showed positive movement. Class A rents ended Q2 2024 at \$38.31 PSF, an increase of 0.5% quarter-over-quarter, while Class B rents ended the quarter at \$31.48, a decrease of 1.29% 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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2Q24

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)
Northern Virginia	163,982,927	22.9%	27.4%	-997,672	-1,763,268	466,902	466,902	607,915	\$35.27
Class A	102,420,759	22.5%	28.1%	-257,485	-722,965	466,902	466,902	607,915	\$38.31
Class B	42,534,055	25.3%	28.1%	-453,954	-586,646	0	0	0	\$31.48
Class C	19,028,113	20.0%	22.0%	-286,233	-453,657	0	0	0	\$30.02

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%	32.1%	-123,722	-159,374	191,034	191,034	0	\$41.34
Clarendon/Courthouse	4,550,562	35.2%	43.0%	78,690	-20,353	0	0	0	\$42.34
Crystal City/Pentagon City	12,355,426	29.1%	31.4%	-126,041	-237,469	0	0	0	\$39.22
Eisenhower Avenue	1,313,328	51.6%	52.8%	-805	-2,761	0	0	0	\$29.51
Fairfax Center	9,674,993	23.0%	28.9%	17,175	-57,070	0	0	0	\$28.42
Gainesville	247,772	7.9%	10.6%	1,872	1,872	0	0	0	\$25.91
Herndon	10,550,514	29.2%	36.0%	-144,934	-184,805	0	0	0	\$32.82
I-395 Corridor - Alexandria	1,784,916	22.5%	22.4%	-85,814	-96,354	0	0	0	\$30.51
I-395 Corridor - Arlington	1,595,158	9.3%	11.2%	0	866	0	0	0	\$31.32
I-395 Corridor - Fairfax	4,195,444	33.8%	33.1%	-71,673	-64,050	0	0	0	\$29.83

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	6.4%	8.9%	-29,595	-19,248	0	0	0	\$24.59
Merrifield	8,217,732	15.9%	21.5%	3,454	-57,878	0	0	0	\$31.62
Old Town Alexandria	10,964,095	17.6%	28.5%	-151,035	-188,944	0	0	0	\$38.31
Reston	18,633,556	23.8%	28.9%	101,254	6,508	275,868	275,868	297,274	\$35.75
Rosslyn	9,103,961	26.2%	30.7%	-285,675	-277,553	0	0	0	\$41.42
Rt. 28 North	5,778,791	14.0%	15.0%	-24,758	-63,338	0	0	0	\$26.00
Rt. 28 South	12,814,652	14.0%	17.8%	278,019	320,575	0	0	0	\$28.70
Rt. 7 Corridor	5,162,290	13.0%	14.6%	-16,178	4,077	0	0	0	\$28.60
Springfield	4,824,339	21.9%	26.1%	25,846	-35,684	0	0	0	\$29.30
Stafford County	847,068	20.9%	22.5%	15,807	10,282	0	0	0	\$28.61
Tysons Corner	27,609,070	25.7%	29.4%	-422,870	-595,832	0	0	0	\$38.74
Virginia Square	1,030,321	28.1%	27.4%	-10,062	-30,687	0	0	310,641	\$42.85
Western Loudoun County	795,188	6.9%	8.5%	0	-1,344	0	0	0	\$32.91
Woodbridge	1,294,344	9.2%	9.6%	-26,627	-14,704	0	0	0	\$28.97

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