Market Fundamentals Improve as Leasing Volume Rebounds

▶ 11.4% Vacancy Rate

▲ (8,251) SF Net Absorption

▶ 0 SF Construction Delivered

▶ 93,000 SF Under Construction

▲ $21.90 FSG/YR Direct Lease Rate

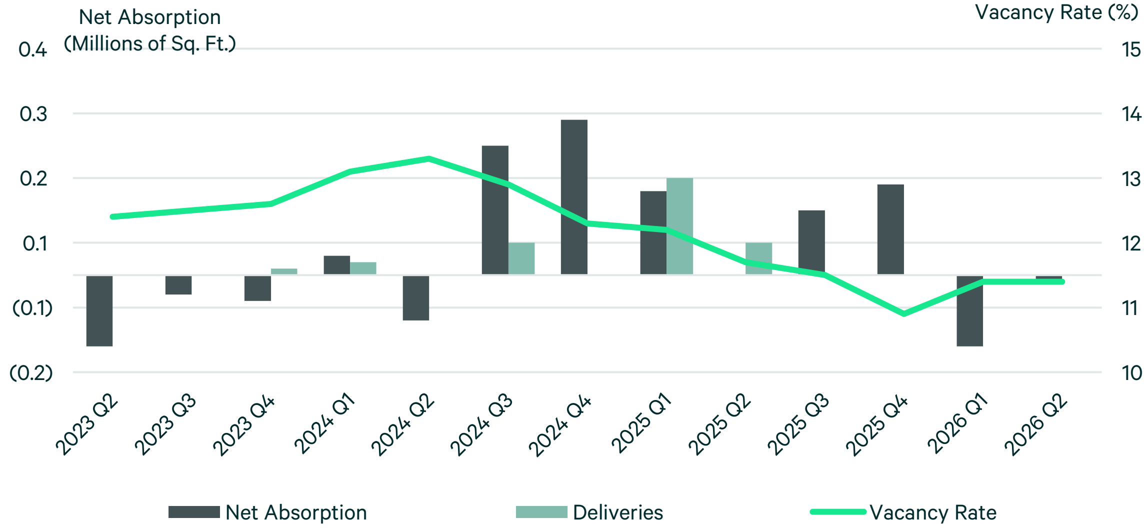
Note: Arrows indicate change from previous quarter.

Market Overview

Market fundamentals started to rebound during the second quarter, with occupancy losses easing to just 8,300 sq. ft., a significant recovery from the 111,000 sq. ft. of occupancy loss recorded in the prior quarter. Overall vacancy remained at 11.4% for the quarter, and availability tightened by 50 basis points (bps) to sit at 14.3%.

Rental rates remained resilient through the lack of demand in the beginning of 2026 and continued to grow into the second quarter, reaching $21.90 per sq. ft. on average. This represents a 1.7% increase year-over-year, and 4.3% growth compared to Q2 2023. Consistent occupancy gain throughout 2025 bolstered market pricing, and steady leasing activity carried that momentum into 2026.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q2 2026

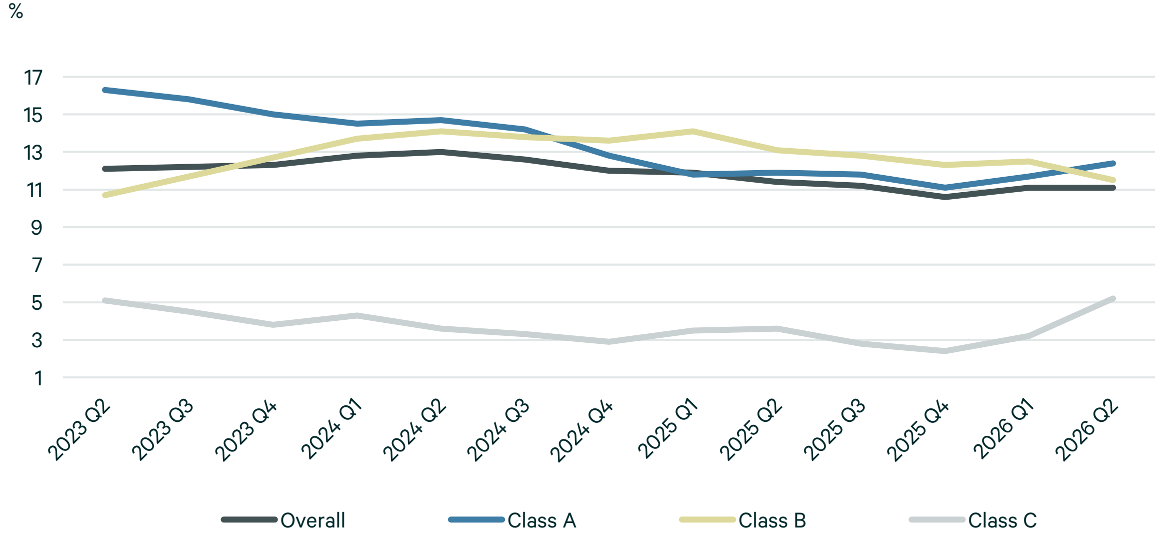
Vacancy

Overall vacancy remained at 11.4% in Q2, seeing no significant change from the prior quarter. This represents a 30 bps decrease in vacancy compared to Q2 2025. Vacancy rates across classes moved unevenly quarter-over-quarter, with Class A vacancy increasing 70 bps to 12.7% and Class B decreasing 100 bps to 11.8%. Class C vacancy rose by 200 bps to 5.5%, marking the largest quarterly increase among the classes and offsetting some of the gains in mid-tier space.

On a district level, the Far West End recorded the highest vacancy rate of 16.8% overall, followed by the Glenside/Broad Street district at 16.4%. Competition is higher in districts such as Parham East, which has a significant office inventory but still enjoys a low vacancy rate of 5.0%.

Sublease vacancy saw a modest decline from the previous quarter and sits at just 0.4% for the overall market.

Figure 2: Vacancy Rates by Class



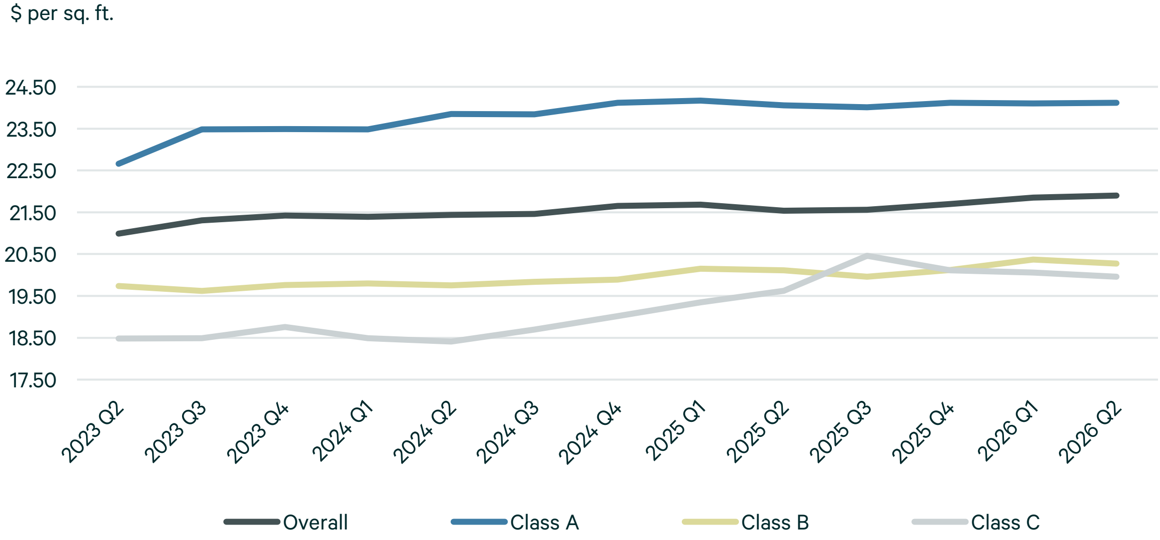
Source: CBRE Research, Q2 2026

Asking Rent

Average asking rates remained consistent through the second quarter, seeing a modest increase to $21.90 per sq. ft. Class A asking rates behaved similarly, averaging $24.12 per sq. ft. for the quarter compared to $24.10 in Q1. Class B and Class C asking rents both recorded a slight decrease of 0.5% quarter-over-quarter but still posted above Q2 2025 levels.

The highest average rate was posted in the North Broad district, with an asking rent of $25.62 per sq. ft., followed by the CBD with an average rate of $24.12 per sq. ft. overall. Despite headline market rents shifting only incrementally, there is a clear pricing hierarchy established by product quality and location, with suburban districts with primarily Class B and C properties consistently recording lower averages than the core office districts.

Figure 3: Average Direct Asking Rate by Class



Source: CBRE Research, Q2 2026

Net Absorption

In Q2 2026, the market posted a modest occupancy loss of 8,300 sq. ft., a notable improvement from the 111,000 sq. ft. of space given back in the prior quarter. The small net loss reflected a sizable occupancy decline in Class A assets that was largely offset by gains in mid-tier properties, leaving the rolling four-quarter average at roughly 31,000 sq. ft. of positive demand. Compared with the same quarter a year earlier, when the market recorded a 5,000 sq. ft. occupancy loss, conditions were only slightly softer, indicating a market that remains close to balance even as Class A absorption stays more volatile than the broader stock.

Positive absorption activity was the strongest in the Northwest submarket among Class B assets, which recorded a total of 87,500 sq. ft. of occupancy gain that helped to offset losses. Notable move-ins in this segment include the Consulate of Guatemala occupying 19,400 sq. ft. at 4144 Innslake Drive in the Innsbrook submarket and Sauer Brands, Inc. moving into 18,500 sq. ft. at 840 Hermitage Road in the Near West End district.

Figure 4: Net Absorption Trend

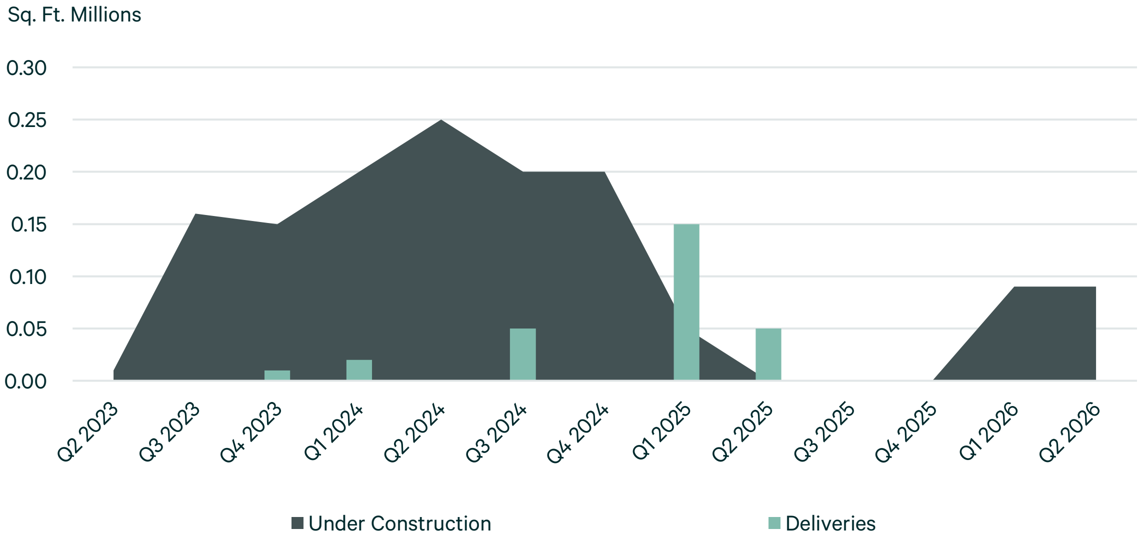
Source: CBRE Research, Q2 2026

Construction Activity

Construction volume remained the same from quarter-to-quarter with two medical office projects under construction in the Southwest submarket totaling 93,000 sq. ft., of which 68.5% is pre-leased.

Site work for the mixed-use Midtown 64 development continued this quarter, with the demolition of several office buildings dating to the 1970's and 80's nearing completion. New construction is planned to begin in earnest next quarter once the land has been cleared, with phase one consisting of the renovation of an existing 130,000 sq. ft. office building and new retail developments.

Figure 5: Construction Activity



Source: CBRE Research, Q2 2026

Leasing Activity

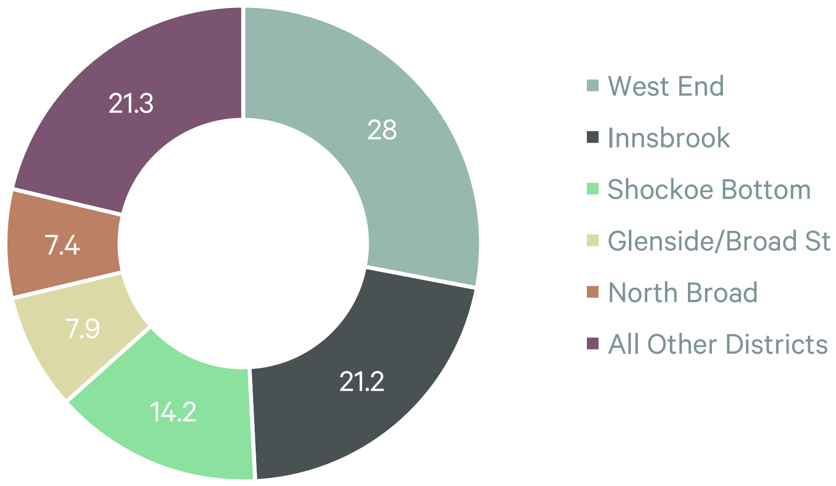
Total leasing volume in Q2 2026 reached 666,900 sq. ft., a notable increase as tenants executed larger commitments. Activity was boosted by Davenport & Company's 118,000 sq. ft. new lease at 2035 Maywill Street in the West End district and Hirschler Fleischer's 67,000 sq. ft. short-term renewal at 2100 E Cary Street in Shockoe Bottom.

The sharp increase in volume was driven primarily by private-sector demand, with business services and financial services tenants accounting for 25% and 24% of gross leasing, respectively. Leasing volume was the strongest in the West End district, followed by Innsbrook and Shockoe Bottom.

Figure 6: Leasing Activity Trend

Source: CBRE Research, Q2 2026

Figure 7: Leasing by District (% of Total Activity)



Source: CBRE Research, Q2 2026

Figure 8: Select Notable Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Davenport & Company	118,000	New Lease	2035 Maywill St	West End
Hirschler Fleischer	67,000	Renewal	2100 E Cary St	Shockoe Bottom
Next Frontier Recovery	43,000	New Lease	9881 Mayland Dr	Innsbrook
Lansing Building Products	42,000	Renewal	2221 Edward Holland Dr	West End
Confidential Tenant	25,000	New Lease	600 E Broad St	North Broad
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Autism Society of Central Virginia	22,000	New Lease	4851 Lake Brook Dr	Innsbrook
Arts & Letters Creative	19,000	Renewal	2700 E Cary St	Shockoe Bottom

Source: CBRE Research, Q2 2026

Market Statistics

Figure 9: Market Statistics by Class

	Net Rentable Area (MSF)	Total Vacant (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	13.59	12.7	15.8	13.9	1.9	24.12	(88,000)	(167,000)	-	93,000
Class B	17.30	11.8	15.3	14.3	1.1	20.27	165,000	150,000	-	-
Class C	4.21	5.5	5.0	5.0	0.0	19.96	(85,000)	(102,000)	-	-
Total	**35.10**	**11.4**	**14.3**	**13.0**	**1.3**	**21.90**	**(8,000)**	**(119,000)**	**-**	**93,000**

Source: CBRE Research, Q2 2026

Market Statistics by Submarket

Figure 10

Submarket	Net Rentable Area (MSF)	Total Vacant (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Northeast	1.42	4.5	9.5	9.2	0.3	19.78	36,000	16,000	-	-
Northwest	25.04	12.6	14.9	13.4	1.5	22.60	(89,000)	(273,000)	-	-
Southeast	1.16	8.1	24.6	24.6	-	19.03	28,000	28,000	-	-
Southwest	7.48	9.0	11.3	10.7	0.7	20.77	17,000	110,000	-	93,000
Total	**35.10**	**11.4**	**14.3**	**13.0**	**1.3**	**21.90**	**(8,000)**	**(119,000)**	**-**	**93,000**

Source: CBRE Research, Q2 2026

Market Area Overview

Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the "net" costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days. Class A industrial are buildings built after 2000, with 32' or greater clear height and ESFR sprinklers.

Survey Criteria

CBRE's market report analyzes office buildings that total 10,000+ sq. ft., excluding owner-occupied buildings, that are located within the submarket boundaries shown on the accompanying map.

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