

FIGURES | NORTHERN VIRGINIA OFFICE | Q4 2023

Leasing Remains Subdued in Fourth Quarter



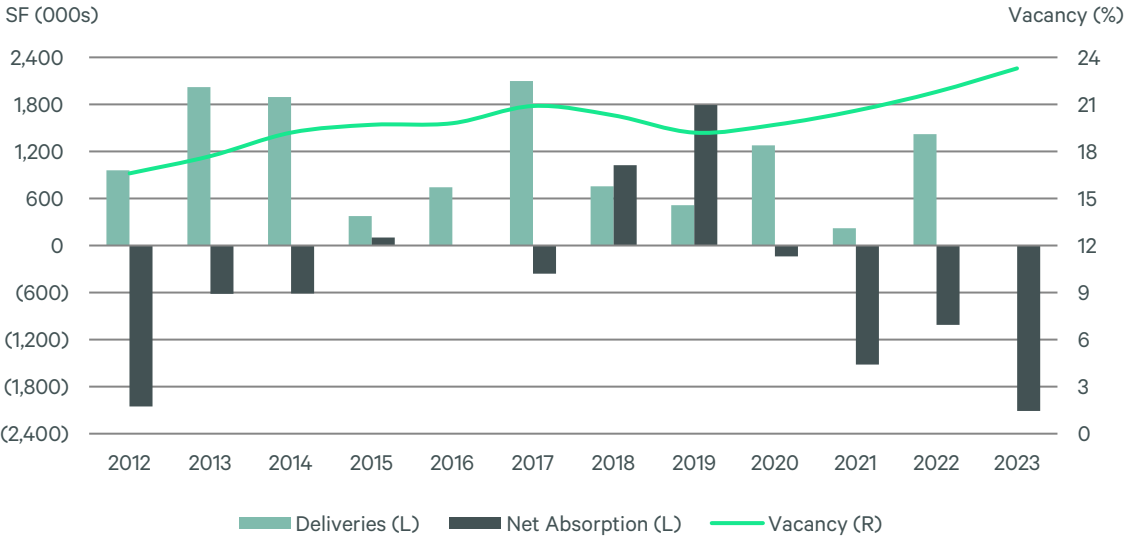
Note: Arrows indicate change from previous quarter.

The Northern Virginia office market recorded 320,000 sq. ft. of occupancy loss during the fourth quarter, pushing vacancy 30 basis points (bps) over the prior quarter to 23.3%. While 76% of transactions signed in Q4 had a positive or neutral impact on absorption, four large move-outs accounted for 137,000 sq. ft. of occupancy loss, offsetting positive momentum. Annually, the market posted 2.1 million sq. ft. of negative absorption and vacancy increased 150 bps year-over-year, up from 21.8% in Q4 2022.

Consistent with leasing trends across the D.C. metro area, activity in Northern Virginia remained low during the fourth quarter. In total, 32 tenants signed leases totaling 1.3 million sq. ft., flat quarter-over-quarter and a level which is 25% below the post-pandemic quarterly average.

Sublease availability remains elevated at 123% above pre-pandemic levels, currently at 5.4 million sq. ft. This represents 3.3% of total market inventory and 12.9% of all availability in Northern Virginia. However, total availability has begun to decline, decreasing from a peak of 5.7 million sq. ft. in Q2 2023. Further, demand for sublease space is limited as only 25% of listings are resulting in lease transactions.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Technology

Tenants in the technology sector leased 500,000 sq. ft. during the fourth quarter, accounting for 45% of all leasing activity. The two largest transactions were both renewals in Crystal City by Amazon. In addition, Digital Management Inc. and GDIT signed renewals in Tysons and Crystal City, respectively.

Business and Financial Services

The business and financial services sectors recorded 253,000 sq. ft. of leasing activity in the fourth quarter. Of note, Cambridge Associates signed a 48,000 sq. ft. lease at 950 North Glebe Road and will relocate from 4100 North Fairfax Drive, downsizing by 47% in the process. Baker Tilly will also contract, signing a 44,000 sq. ft. lease at 8270 Greensboro Drive this quarter.

Government

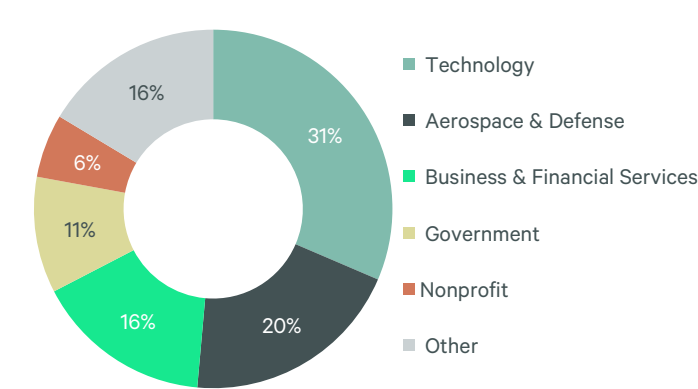
The General Services Administration signed a 64,000 sq. ft. lease at 1550 Crystal Drive on behalf of the DOD-Washington Headquarters Service, and a 33,000 sq. ft. lease at 1953 Gallows Rd on behalf of the IRS. Also of note, the Fairfax County Economic Development Corporation shed 5,000 sq. ft. in a lease to relocate to 8270 Greensboro Drive.

FIGURE 2: Select Notable Q4 2023 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF	Market Effect
Amazon	Technology	1770 Crystal Dr	Crystal City	Renewal	260,000	Flat
Amazon	Technology	241 18 th St S	Crystal City	Renewal	88,000	Flat
GSA-DOD-WHS	Government	1550 Crystal Drive	Crystal City	Renewal	63,688	Flat
Cambridge Associates	Financial Services	950 N Glebe Rd	Ballston	New Lease	48,181	Contraction
Baker Tilly US	Financial Services	8270 Greensboro Dr	Tysons	New Lease	44,316	Contraction
Raytheon	Aerospace & Defense	13900 Lincoln Park Dr	Route 28 South	Renewal	42,453	Contraction
GSA-IRS	Government	1953 Gallows Rd	Tysons	New Lease	33,347	Contraction
Digital Management, Inc.	Technology	1600 International Dr	Tysons	Renewal	24,038	Flat
Bohler Engineering VA	Engineering	12825 Worldgate Dr	Herndon	New Lease	21,525	Growth
GDIT	Technology	1235 S Clark St	Crystal City	Renewal	21,155	Flat

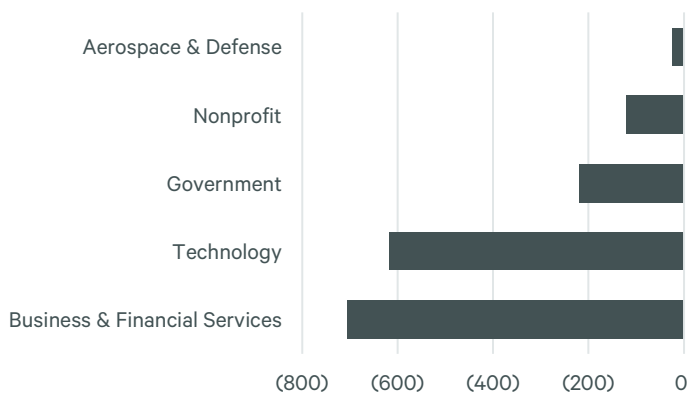
Source: CBRE

FIGURE 3: 2023 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2023 Net Absorption by Sector (SF, 000's)



Source: CBRE

Development Activity

While no office developments delivered or broke ground during the fourth quarter, there are currently four properties under construction throughout the Northern Virginia market:

- Boston Properties’ 77,000 sq. ft. office property at the Reston Gateway mixed-use development is set to deliver in 2024.
- Skanska will deliver a 191,000 sq. ft. development at 3901 North Fairfax Drive in early 2024.
- Comstock’s 1800 and 1880 Reston Row Plaza, which will total 495,000 sq. ft., are scheduled to deliver in 2024.

Since 2016, 2.1 million sq. ft. of office inventory has been converted into residential space. An additional 6.3 million sq. ft. of office space could potentially convert to another use and is currently in varying stages of the redevelopment process. Since the start of the pandemic, conversions have led to a 2.2 million sq. ft. reduction in Class B/C office inventory. Continued redevelopment trends would have a significant, positive impact on overall office market fundamentals.

Pricing

Average asking rates increased to \$36.57 per sq. ft. on a full-service basis during the fourth quarter. This 5.9% increase above pre-pandemic levels is due to an increase in available space in core submarkets, the reduction of less-expensive, lower quality space due to residential conversions, and the continuing delivery of new high-end office inventory.

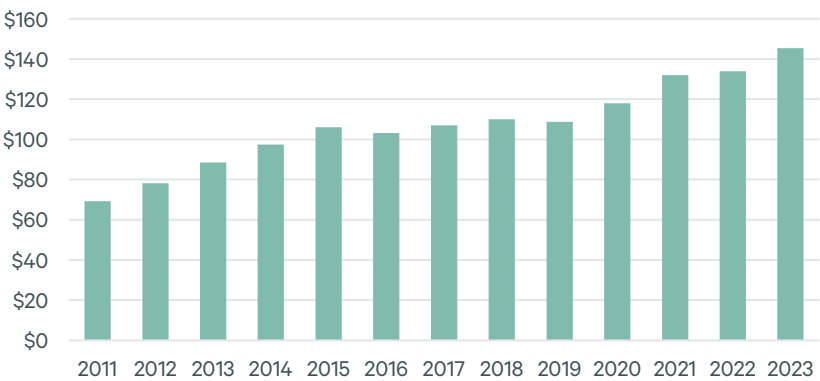
Concessions have risen 34% above pre-pandemic levels. Concession packages now average \$95-105 per sq. ft. in tenant improvement allowance and 12-15 months in rent abatement, outside the term, for a 10-year lease. However, as landlords continue to compete over smaller numbers of tenants and respond to changing lending conditions, the market is seeing instances in which concessions rise well above the average.

FIGURE 5: Development Pipeline

Status	Address	Submarket	SF	% Leased	Delivery Year	Developer
Delivered since Start of Pandemic	6595 Springfield Center Dr	Springfield/Newington	634,000	100%	2020	Boston Properties
	1906 Reston Metro Plz	Reston	213,000	100%		Comstock
	1750 Presidents St	Reston	276,000	100%		Boston Properties
	1902 Reston Metro Plz	Reston	221,000	100%	2021	Comstock
	1950-2000 Opportunity Way	Reston	1,062,000	89%	2022	Boston Properties
	1750 Tysons Central St	Tysons	360,000	0%		Foulger-Pratt
	TOTAL		2,766,000	84%		
Under Construction	3901 N Fairfax Dr	Ballston	191,034	0%	2024	Skanska
	12050 Inspiration St	Reston	77,000	0%		Boston Properties
	1800 Reston Row Plz	Reston	284,352	0%		Comstock
	1880 Reston Row Plz	Reston	210,487	0%		Comstock
	TOTAL		762,873	0%		

Source: CBRE

FIGURE 6: Total Concession Packages



Source: CBRE

* Normalized for 10-year term and including all building classes

Economic Outlook

The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters.

Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, while remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024 (CBRE expects 75 to 100 basis points worth of rate cuts in 2024). This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets.

Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

FIGURE 7: Employment Growth by Industry, 12-Month Percent Change

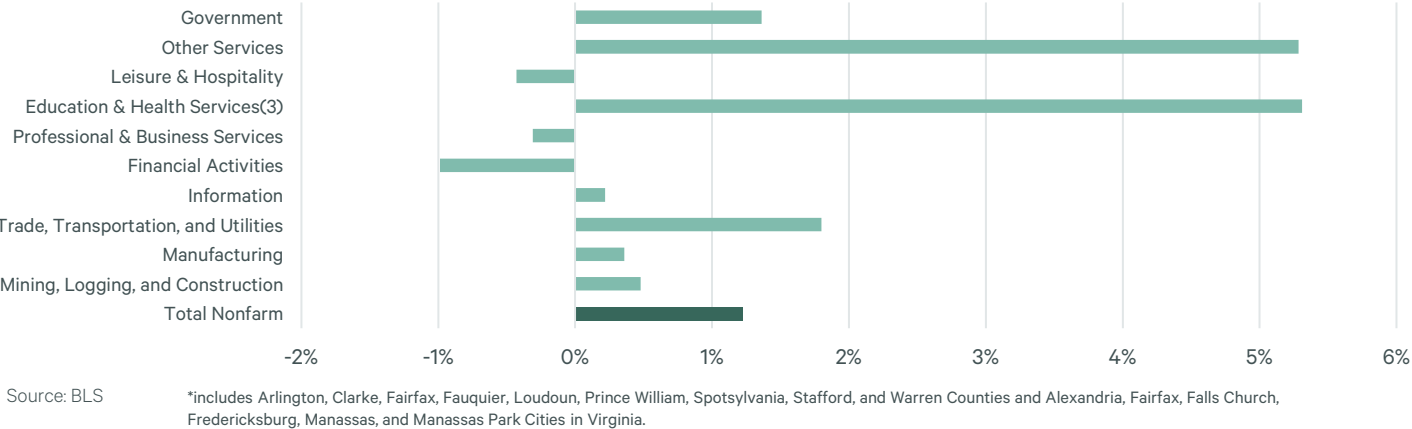


FIGURE 8: Unemployment Rate for Selected Counties

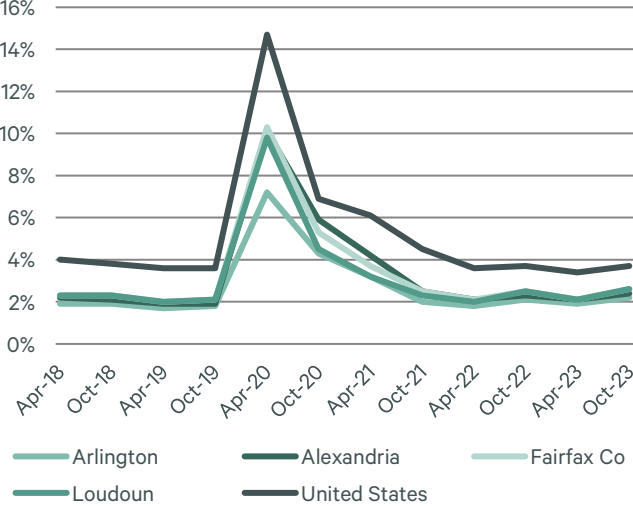


FIGURE 9: Consumer Price Index, 12-Month Percent Change

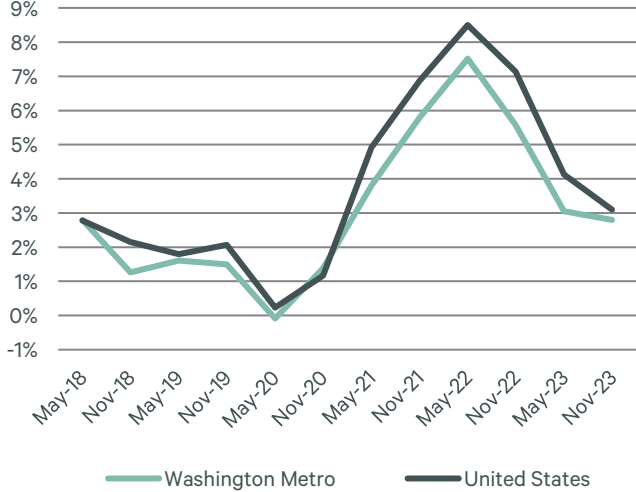


FIGURE 10: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
City of Alexandria	170	14,416,579	26.2	40,607	5,351	39.92	-
Old Town Alexandria	122	6,548,859	20.5	(30,608)	(25,968)	37.34	-
Arlington County	173	36,737,305	28.3	(76,807)	(789,282)	43.46	191,000
Ballston	33	7,731,879	26.8	(105,355)	(189,847)	42.26	191,000
Clarendon/Courthouse	30	4,873,139	32.9	(11,971)	(199,611)	43.18	-
Rosslyn	36	9,278,459	24.6	18,449	(105,269)	46.80	-
RB Corridor	112	23,038,168	27.5	(83,399)	(465,077)	44.11	191,000
National Landing	44	12,498,876	29.8	2,854	(315,386)	42.72	-
Fairfax County	1,011	94,255,529	22.7	(220,783)	(1,253,308)	33.95	572,000
Herndon	112	11,689,597	30.1	(7,659)	(246,599)	30.13	-
Reston	133	17,178,101	25.4	(152,103)	(438,976)	37.43	572,000
Toll Road	245	28,867,698	27.3	(159,762)	(685,575)	34.20	572,000
Route 28 South	122	11,384,168	17.3	(71,034)	(94,675)	28.70	-
Tysons	143	22,769,062	25.0	27,733	(211,491)	39.68	-
Loudoun County	175	11,457,778	14.5	(55,399)	(83,353)	27.43	-
Prince William County	135	4,546,757	7.3	(7,583)	9,784	24.88	-
Overall	1,664	161,413,948	23.3	(319,965)	(2,110,808)	36.57	763,000

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied office buildings 10,000 sq. ft. and greater in Northern Virginia
Chart includes breakdown of select key submarkets in the City of Alexandria, Arlington County and Fairfax County

Source: CBRE

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