

FIGURES | NORTHERN VIRGINIA OFFICE | Q4 2022

# Market Fundamentals Worsen Due to Large Government Contraction

▲ 21.8%

Vacancy Rate

▼ (975,604)

SF Net Absorption

▶ 810,000

SF Under Construction

▲ \$34.91

Average Gross Asking Rate

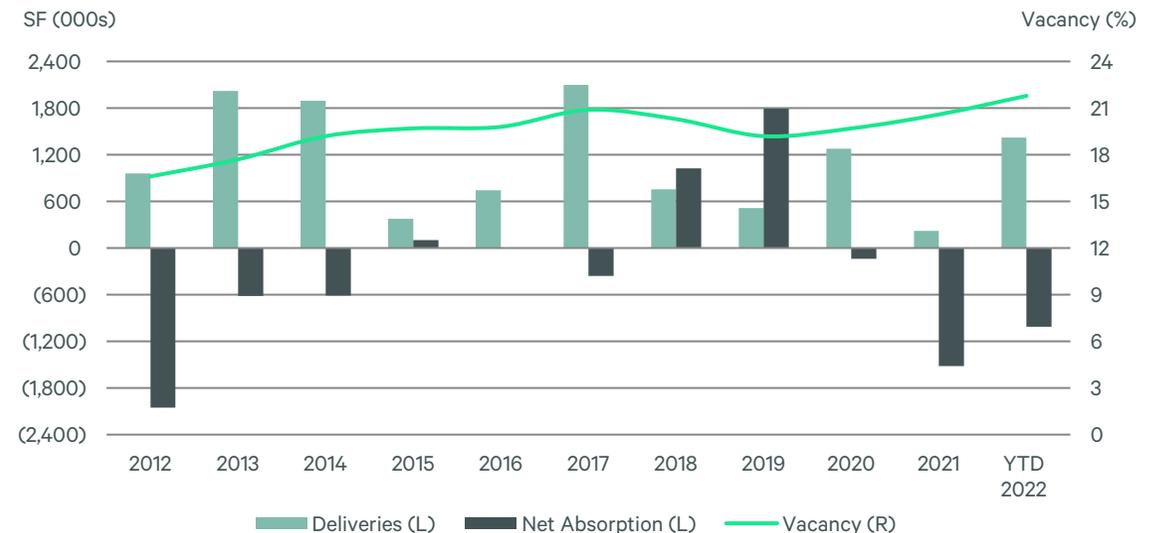
Note: Arrows indicate change from previous quarter.

During the fourth quarter, tenants signed leases totaling 2.8 million sq. ft. across Northern Virginia, buoyed by government activity. In the largest lease of the year, GSA renewed 1.6 million sq. ft. of space at 600 Dulany Street in Alexandria on behalf of the U.S. Patent and Trademark Office. The transaction represents a 954,000 sq. ft. space reduction for PTO and served as the main driver of occupancy loss during the fourth quarter.

In total, the Northern Virginia office market recorded 976,000 sq. ft. of negative absorption during the quarter. Consequently, vacancy increased 80 bps over the prior quarter to 21.8%, a new record-high for the market. This is a stark change from Q3, which recorded a decrease in vacancy due to the conversion of several office properties into residential housing.

Overall vacancy increased 120 bps year-over-year and annual gross leasing activity remains 28% lower than pre-pandemic levels. Sublease availability in Northern Virginia pushed higher during the fourth quarter, up 127% from pre-pandemic levels, with more than 5.2 million sq. ft. currently listed across the market. Despite challenging market fundamentals, 52% of all transactions signed during the fourth quarter were relocations and 51% were long-term leases (6+ years).

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

## Sector Snapshot

### Government

In total, the government sector accounted for 28% of all leasing across Northern Virginia in 2022. PTO’s renewal lease at 600 Dulany Street in Alexandria was the only government lease signed during the fourth quarter. The 1.6 million sq. ft. deal remains the largest single lease in the national GSA leased inventory, despite representing a 37% contraction for the tenant. GSA has continued to reduce its leased portfolio in the region, with the regional leased footprint peaking at 57.5 million sq. ft. in 2015 and shrinking by 22% to 44.9 million sq. ft. in 2022.

### Aerospace & Defense

A&D leasing accounted for 17% of all leasing activity in Northern Virginia in 2022, fueled by expansions of defense giants Boeing and Peraton, as well as several rapidly growing small and midsize government contractors. During the fourth quarter, 9 tenants signed leases totaling 183,000 sq. ft. Of note, BAE signed a 25,588 sq. ft. lease at 11091 Sunset Hills Road. The contractor will relocate from its full building lease at 11487 Sunset Hills Road, shrinking its footprint by 81% in the process. This contraction offset growth by other aerospace and defense tenants throughout the year, bringing year-end totals to 8,300 sq. ft. of occupancy loss for the sector.

### Technology

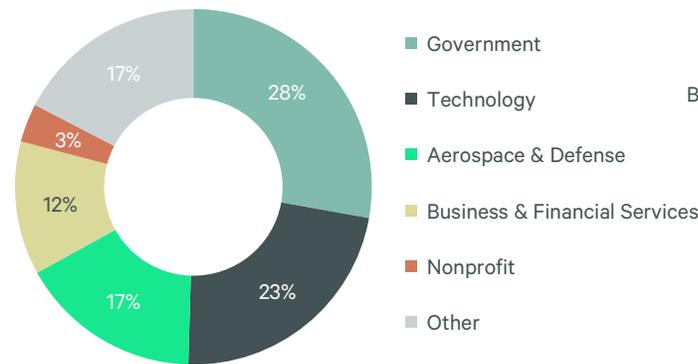
Tech tenants signed leases totaling 453,000 sq. ft. during the fourth quarter, accounting for 16% of all activity. The technology sector contributed 382,000 sq. ft. of occupancy gain in Northern Virginia this year, leading all industry sectors in net absorption. However, the industry is expected to see increased volatility in 2023. Northern Virginia may prove to be somewhat sheltered from these macro trends because of the make-up of its tech jobs and tenants.

FIGURE 2: Select Notable Q4 2022 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF	Market Effect
GSA – U.S. Patent & Trademark Office	Government	600 Dulany St	Eisenhower Ave	Renewal	1,623,490	Contraction
Giesecke & Devrient	Technology	45925 Horseshoe Dr	Route 7	Renewal	112,000	Flat
Institute for Justice	Nonprofit	901 N Glebe Rd	Ballston	Renewal	58,285	Growth
Booz Allen Hamilton	Business Services	15059 Conference Center Dr	Route 28 South	Renewal	39,888	Flat
Huntington Ingalls Industry	Aerospace & Defense	2451 Crystal Dr	Crystal City	New Lease	36,897	Growth
Electronic Warfare Associates	Aerospace & Defense	13873 Park Center Rd	Herndon	Renewal	30,000	Flat
Ofinno	Technology	1950 Opportunity Way	Reston	New Lease	29,112	Growth
FTS International	Business Services	14151 Newbrook Rd	Route 28 South	New Lease	28,824	Growth

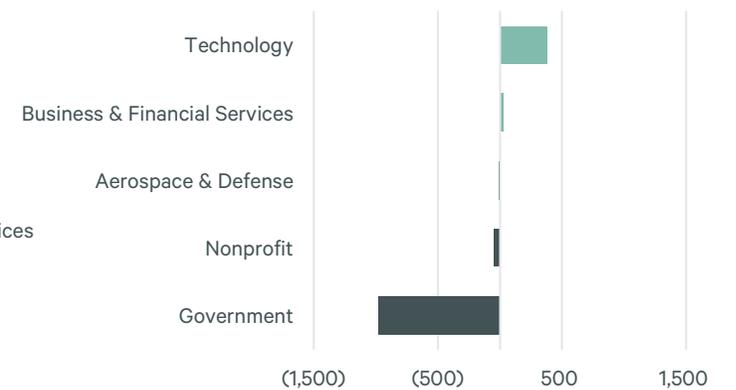
Source: CBRE

FIGURE 3: 2022 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2022 Net Demand by Sector (SF, 000's)



Source: CBRE

## Development Activity

No buildings delivered or broke ground during the quarter. Since the start of the pandemic, 2.7 million sq. ft. of new office development has delivered across Northern Virginia, now 84% leased overall. However, Foulger-Pratt’s Q2 2022 delivery of 1750 Tysons Central Street is the most recent delivery and is currently fully available for lease. The low vacancy rate across deliveries since 2020 furthers the flight to quality narrative that occupiers across the region and the country are opting to move into upgraded office space.

Four office buildings remain under construction across Northern Virginia, all fully available for lease.

- Skanska’s 3901 N Fairfax Drive in Ballston will deliver 191,000 sq. ft. of office space and 10,000 sq. ft. of ground floor retail in late 2023.
- Comstock’s 1800 and 1880 Reston Row Plaza will deliver a combined 500,000 sq. ft. of office product to the growing Dulles Technology Corridor in 2024.
- Trammell Crow Company will deliver 124,000 sq. ft. of medical office space at 7171 Cardinal Lane in 2024. The building will join West Falls, a 40-acre, \$1.2 billion mixed-use redevelopment project, in the City of Falls Church.

## Pricing

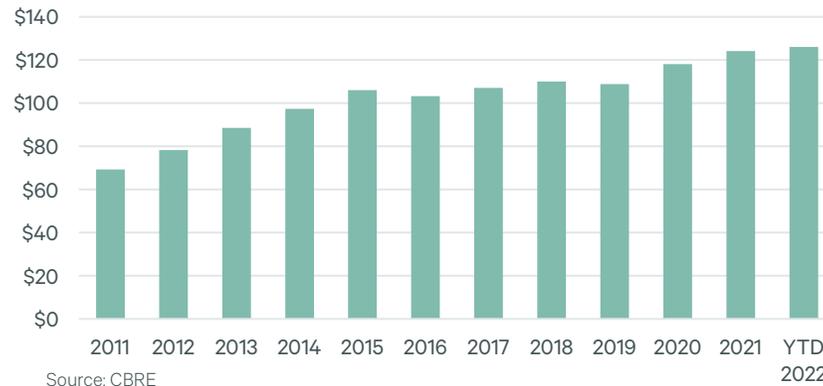
Overall asking rents ended the quarter at \$34.91 per sq. ft. per annum on a full-service basis, essentially unchanged from the prior quarter, but elevated 2.0% year-over-year. Concessions remain up 15% from pre-pandemic levels, compressing net effective rents in Northern Virginia. Typical concession packages currently include approximately 1.3 months in rent abatement per year of term, outside the term, as well as \$9 to \$10 per sq. ft. in tenant improvement allowances per year of term.

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%		Boston Properties
	1906 Reston Metro Plz	Reston	213,000	100%	2020	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	91%	2022	Boston Properties
	1750 Tysons Central St	Tysons	360,000	0%		Foulger-Pratt
	<b>TOTAL</b>			<b>2,766,000</b>	<b>84%</b>	
Under Construction	3901 N Fairfax Dr	Ballston	191,034	0%	2023	Skanska
	7171 Cardinal Ln	Merrifield	124,000	0%		Trammell Crow Company
	1800 Reston Row Plz	Reston	284,352	0%	2024	Comstock
	1880 Reston Row Plz	Reston	210,487	0%		Comstock
	<b>TOTAL</b>			<b>809,873</b>	<b>0%</b>	

Source: CBRE

FIGURE 6: Total Concession Packages



Source: CBRE

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

FIGURE 7: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2022 Net Absorption (SF)	YTD 2022 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
<b>City of Alexandria</b>	<b>177</b>	<b>14,854,900</b>	<b>26.5</b>	<b>(688,921)</b>	<b>(633,934)</b>	<b>35.42</b>	<b>-</b>
Old Town Alexandria	127	6,858,209	21.1	106,392	121,910	36.45	-
<b>Arlington County</b>	<b>176</b>	<b>36,993,611</b>	<b>24.6</b>	<b>(247,527)</b>	<b>(231,208)</b>	<b>40.72</b>	<b>191,034</b>
Ballston	33	7,731,879	22.8	(18,666)	118,572	37.83	191,034
Clarendon/Courthouse	33	4,974,260	26.8	(38,499)	(70,845)	42.87	-
Rosslyn	37	9,422,307	22.3	(32,753)	(38,465)	45.37	-
RB Corridor	116	23,283,031	24.0	(89,536)	(10,685)	42.53	191,034
National Landing	43	12,510,319	25.4	16,949	(11,323)	38.17	-
<b>Fairfax County</b>	<b>1,030</b>	<b>95,484,024</b>	<b>21.7</b>	<b>(191,478)</b>	<b>(417,723)</b>	<b>33.81</b>	<b>618,839</b>
Herndon	113	11,635,988	27.1	(46,823)	(514,088)	33.87	-
Reston	138	17,377,119	23.0	(131,367)	197,618	36.55	494,839
Toll Road	251	29,013,107	24.7	(178,190)	(316,470)	35.62	494,839
Route 28 South	121	11,143,863	15.3	77,977	11,421	26.75	-
Tysons	149	23,206,577	24.0	(110,379)	(129,279)	37.10	-
<b>Loudoun County</b>	<b>176</b>	<b>11,526,822</b>	<b>13.2</b>	<b>70,268</b>	<b>135,138</b>	<b>27.31</b>	<b>-</b>
<b>Prince William County</b>	<b>135</b>	<b>4,538,803</b>	<b>7.6</b>	<b>43,734</b>	<b>93,327</b>	<b>24.63</b>	<b>-</b>
<b>Overall</b>	<b>1,694</b>	<b>163,398,160</b>	<b>21.8</b>	<b>(975,604)</b>	<b>(1,013,080)</b>	<b>34.91</b>	<b>809,873</b>



\* Chart includes breakdown of select key submarkets in the City of Alexandria, Arlington County and Fairfax County  
 Source: CBRE

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