

Northern Virginia

Office Expansion in Suburban Markets Drive Early Market Tightening in Virginia

Northern Virginia's office market continued to show signs of tightening in the first quarter of 2020. Although this continues an 18-month streak of occupancy expansion, the rapid development of the coronavirus (COVID-19) in March dramatically changed the region's economic and real estate future. Impacts of the pandemic on the region's economy and real estate markets are uncertain; however, it will undoubtedly cause momentum to decelerate in the near term. Given mandated social distancing measures, business closures, and suspensions of large gatherings, business activity will grind to a halt in Q2. Although COVID-19 will likely be the most important economic event of 2020, this report will primarily focus on the market activities of Q1 predating the onset of COVID-19.

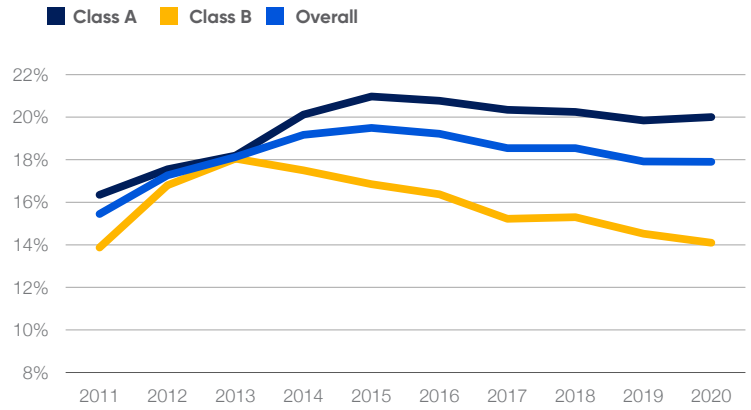
Vacancy has been trending down across Northern Virginia, with total vacancy reaching 17.9% in Q1. Fairfax County saw vacancy drop behind the largest occupancy gain of any county in Northern Virginia (326,843 SF). Strong preleasing rates in Fairfax County's development projects will ensure some additional tenant growth in coming quarters. There are now 5.6 million SF of office space under construction across Northern Virginia, with 3.4 million SF located in Fairfax County. Much of this inventory growth can be attributed to a variety of investments, such as the Silver Line, which have sparked mixed-use development activity along suburban submarkets.

Based on data through February 2020, Northern Virginia's job market maintained steady average growth of roughly 2%. Total employment has grown by 31,100 jobs over the previous year, of which 19,400 were office-using jobs. Though future employment growth was expected to continue, COVID-19 caused significant increases in unemployment, particularly in retail, hospitality, and foodservice industries. COVID-19 will cause labor market contraction in the coming months as social distancing measures are likely to extend into the summer.

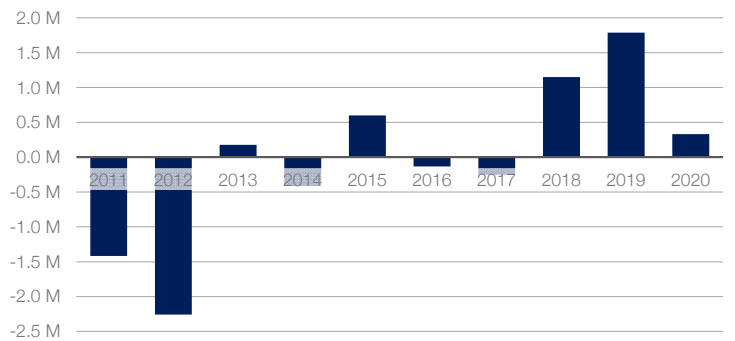
Q1 Top Leases

Tenant	Address	Submarket	Size	Type
Amazon	2100 Crystal Drive	National Landing	272,000	New Lease
Booze Allen Hamilton	575 Herndon Parkway	Herndon	125,556	Renewal
OneWeb	1785 Greensboro Station Place	Tysons Corner	86,000	Renewal
Airlines Reporting Corp	3000 Wilson Boulevard	Clarendon/Courthouse	78,926	Renewal
Convenc	1676 International Drive	Tysons Corner	75,000	New Lease

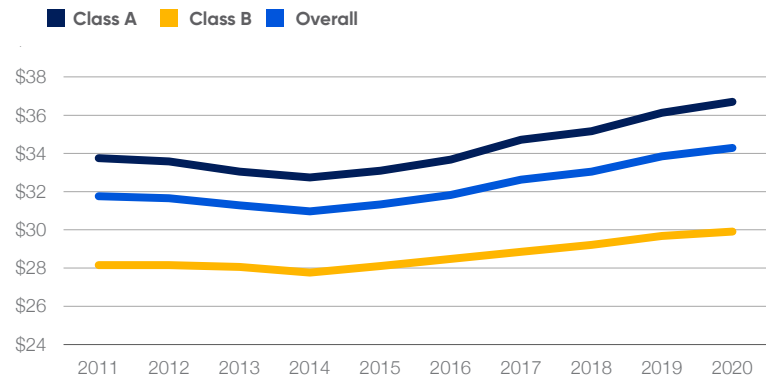
Average Vacancy Rate



Net Absorption



Average Asking Rent

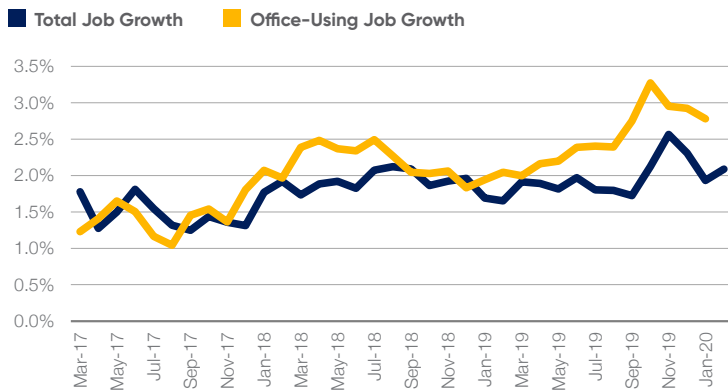


Q1 Key Market Indicators

Total Vacancy	▼ 17.9%
Net Absorption	▼ 331,704 SF
Rental Rate	▲ \$34.82/SF
Deliveries (YTD)	516,000 SF

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Employment Growth by Month



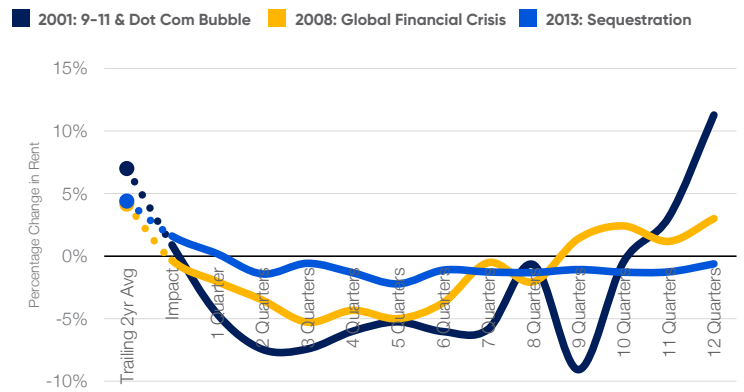
Vacancy and Rental Rates. The vacancy rate in Northern Virginia decreased by 40 basis points (bps) from year-ago levels to 17.9%. Though the vacancy has been on a downward trend over the last five years, overall levels have remained elevated. Class A vacancy decreased 30-bps to 20.0% while Class B vacancy fell 130-bps to 14.1%. Among counties, Loudoun and Fairfax recorded the lowest vacancy rates at 14.6% and 17.4%, respectively. Relatively high vacancy persists in many submarkets, where average rates can range from 15%-24%.

Asking rental rates increased \$0.80/SF from year-ago levels to \$34.29/SF. Class A asking rents rose \$1.03/SF to \$36.70/SF, while Class B rents rose \$0.38/SF to \$29.91/SF. The largest increase in asking rents was recorded in Arlington County. Amazon-associated demand is a leading factor for landlords' optimism; however, Arlington's access to public transportation and its many live-work-play communities have aided in elevating rents. Rates in National Landing have jumped as high as the mid-\$50s in anticipation of new tenant demand. Aggressive rent growth is unlikely in the near term as the region adjusts to COVID-19-induced slowdowns. Past economic shocks have resulted in measurable rent contraction locally, and similar conditions could be expected in the wake of COVID-19.

Supply and Demand. There are 37.4 million SF of available space for lease across Northern Virginia, which is down 1.8 million SF from year-ago levels. Class A availability is recorded at 27.3 million SF, and Class B is recorded at 10.1 million SF. Available space for lease has remained remarkably consistent in recent years despite the amount of new construction in the pipeline. Leasing activity through 2019 was particularly strong, partly aided by the injection of new construction in the market. Although leasing is likely to slow in the near term, firms moving into preleased space could provide a temporary boost to occupancy in construction-heavy submarkets.

Overall, the construction pipeline across Northern Virginia has remained active with 5.6 million SF currently under construction. Eleven properties, totaling over 1.8 million SF, are expected to deliver in 2020. One new office building broke ground in the first quarter: Tysons Central, a 383,628 SF Trophy office property at 1750 Tysons Central Street.

Economic Shock Recovery



Market Outlook

Office market fundamentals in Northern Virginia have shown signs of tightening over the last two years. Though the region struggled with oversupply and sub-par demand for much of the 2010s, the growth of Fairfax County has helped to fuel Northern Virginia's economic and real estate markets. Still, the region remains heavily oversupplied with outdated, transit-inaccessible, commodity-grade office space. While structural deficiencies are a point of concern for Northern Virginia landlords, the larger issue in 2020 will be the COVID-19 pandemic. Recessionary-like conditions could be commonplace in the wake of COVID-19 as tenants delay major real estate decisions, landlords increase competition, and development pipelines slow. The COVID-19 pandemic has cast much uncertainty in the market and will significantly alter the Q2 market landscape.

Q1 Top Sales

Building	Submarket	Size	Price	Price (PSF)	Buyer	Seller
499 Grove Street	Herndon	257,400	\$133,768,303	\$519.69	USAA	Boston Properties
399 Grove Street	Herndon	235,201	\$122,231,697	\$519.69	USAA	Boston Properties
2941 Fairview Park Drive	Merrifield	367,349	\$97,590,405	\$265.66	Menlo Equities	Fairview Park
4114 Legato Road	Fairfax Center	219,558	\$58,000,000	\$264.17	Tritower Financial Group	Beacon Capital Partners
8111 Gatehouse Road	Merrifield	282,542	\$52,000,000	\$184.04	MTR Capital Group	Equus Capital Partners

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Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption (Q1 2020)	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Constr.	SF Delivered YTD
Tysons Corner	148	24,244,104	599,825	5,556,161	4,292,319	▼ 17.7%	19,099	19,099	\$41.69	\$36.34	▲ \$39.88	383,628	-
Merrifield	87	7,919,644	59,404	1,482,028	1,548,377	▲ 19.6%	20,482	20,482	\$32.01	\$30.30	▲ \$31.20	-	-
Fairfax Center	64	7,139,533	193,217	2,047,129	1,649,435	▼ 23.1%	(51,653)	(51,653)	\$30.32	\$24.68	▲ \$28.30	-	-
Fairfax City	102	3,621,977	8,410	495,688	438,506	▼ 12.1%	14,406	14,406	\$28.01	\$24.16	▲ \$24.71	-	-
Reston	156	17,753,786	221,448	3,968,524	2,747,566	▲ 15.5%	56,801	56,801	\$35.41	\$29.71	▼ \$33.61	2,275,987	276,000
Herndon	126	11,902,519	122,766	2,979,513	1,941,622	▼ 16.3%	29,274	29,274	\$35.57	\$25.01	▲ \$33.40	-	-
Route 28 S	146	13,038,259	160,155	2,215,973	1,745,263	▼ 13.3%	156,393	156,393	\$30.13	\$24.39	▲ \$26.72	125,000	-
Springfield	117	5,861,956	110,083	1,370,421	1,208,638	▼ 20.6%	82,041	82,041	\$36.08	\$24.18	▲ \$29.86	634,000	-
Fairfax County	1,038	97,948,577	636,323	22,525,481	17,029,851	▼ 17.4%	326,843	326,843	\$35.68	\$29.28	▲ \$33.36	3,418,615	276,000
Route 28 N	124	9,079,790	8,433	1,446,755	1,468,139	▼ 16.2%	168,851	168,851	\$26.28	\$22.45	▲ \$25.55	566,951	-
Route 7	58	3,031,340	67,443	477,389	283,119	▼ 9.3%	23,739	23,739	\$33.68	\$22.94	▲ \$29.07	-	-
Leesburg	77	2,536,239	8,730	270,283	218,193	▲ 8.6%	(5,312)	(5,312)	\$31.71	\$24.98	▲ \$27.35	-	-
Loudoun County	260	14,622,500	27,549	2,393,325	2,205,793	▲ 14.6%	187,278	187,278	\$28.56	\$22.87	▲ \$26.54	566,951	-
Rosslyn	38	9,475,757	159,851	2,134,210	1,771,573	▼ 18.7%	(8,953)	(8,953)	\$51.96	\$40.11	▼ \$47.73	-	-
Clarendon/Courthouse	30	5,173,250	59,208	1,279,283	935,002	▲ 17.8%	(15,175)	(15,175)	\$48.60	\$41.78	▼ \$45.69	158,994	-
Ballston	34	7,741,401	179,072	2,175,287	1,827,961	▼ 23.6%	75,320	75,320	\$47.13	\$38.17	▲ \$45.70	240,000	240,000
Virginia Square	11	1,029,436	-	228,069	225,404	▲ 21.9%	2,825	2,825	\$43.48	\$35.31	▼ \$39.54	-	-
RB Corridor	113	23,419,844	398,131	5,816,849	4,759,940	▼ 20.3%	54,017	54,017	\$49.08	\$39.56	▲ \$46.20	398,994	240,000
Crystal City	44	12,200,108	177,111	2,605,124	2,131,699	▼ 17.5%	(197,299)	(197,299)	\$46.16	\$39.57	▲ \$43.81	965,967	-
Arlington County	157	35,619,952	575,242	8,421,973	6,891,639	▼ 19.3%	(143,282)	(143,282)	\$48.18	\$39.57	▲ \$45.46	1,364,961	240,000
Old Town	128	7,476,003	252,236	1,632,126	1,198,451	▲ 16.0%	(4,362)	(4,362)	\$39.35	\$32.90	▲ \$37.25	-	-
Eisenhower Ave.	24	4,624,556	14,320	495,546	469,331	▲ 10.1%	6,195	6,195	\$32.73	\$26.88	▼ \$30.43	-	-
I-395	64	7,522,119	14,157	2,856,212	2,824,641	▲ 37.6%	(40,968)	(40,968)	\$31.52	\$26.07	▼ \$29.70	299,766	-
Alexandria County	189	15,659,508	227,630	3,698,065	3,010,019	▲ 19.2%	(39,135)	(39,135)	\$34.20	\$28.39	▼ \$32.25	299,766	-
Total	1,579	161,499,329	2,415,869	35,715,721	28,925,239	▼ 17.9%	331,704	331,704	\$36.70	\$29.91	▲ \$34.29	5,650,293	516,000

*Availability refers to all office space being actively marketed for lease – including both vacant space and spaces anticipated to be vacant ahead of tenant move-out.

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