

Northern Virginia

cresa

Q2 2020 Market Report

Key Performance Indicators



Market Overview

Northern Virginia's office market maintained steady growth in Q2, despite the onset of the coronavirus. NoVa's leasing pipeline was relatively robust before COVID-19, which helped to prop up leasing velocity as demand among smaller firms effectively froze. Despite mega-deals, such as Microsoft's 396,740 SF development hub in Reston, NoVa's overall leasing volume was historically low in Q2. Sustained low leasing activity will manifest itself as tepid occupancy growth, elevated vacancy, and increased landlord competition. While forecasts show near-term softening due to COVID, NoVa's tenant composition could provide some insulation from a sluggish economy. The region's strong technology sector – including consumer, federal, and defense-related firms – has generally been less impacted by layoffs and furloughs relative to other knowledge-based industries. **While tech may support some of the region's recovery, much of NoVa remains structurally oversupplied with office space, as evidenced by its static vacancy rate of 17.9%.** Additionally, slumping asking rents in nearly all submarkets further indicate that landlords are aware of the slowdown in demand and their shrinking leverage.

Tenant's Perspective

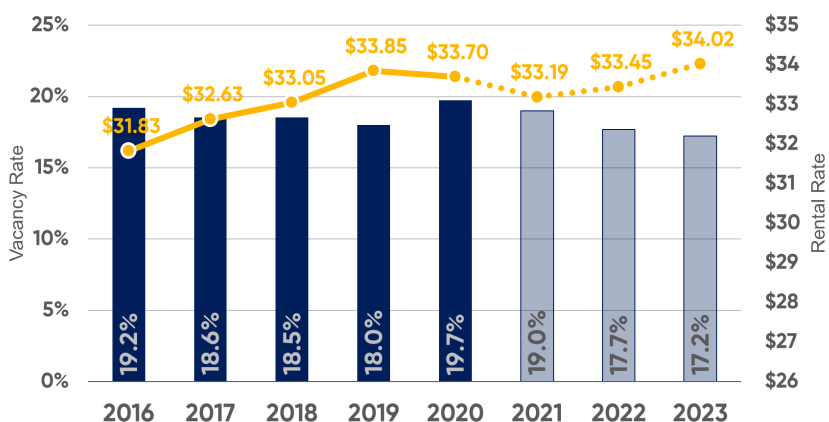
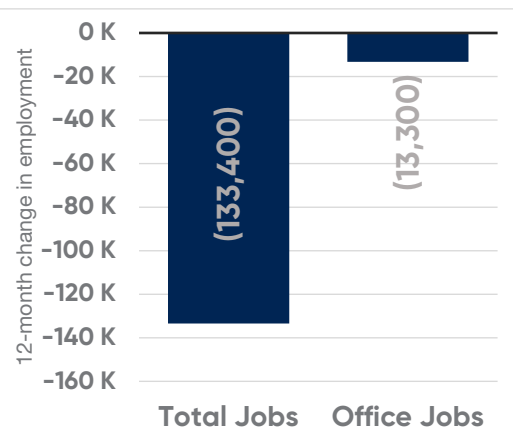
Northern Virginia's office market is expected to remain tenant-favorable for the foreseeable future.

Pockets of new growth in Fairfax and Loudoun Counties (particularly along Phase II of the Silver Line), will show greater tightness due to transit accessibility and limited options for high-quality space.

Landlords of commodity-grade office buildings will likely be forced to compete more aggressively in the near-term, resulting in generous concession packages and, in some cases, term buyouts.

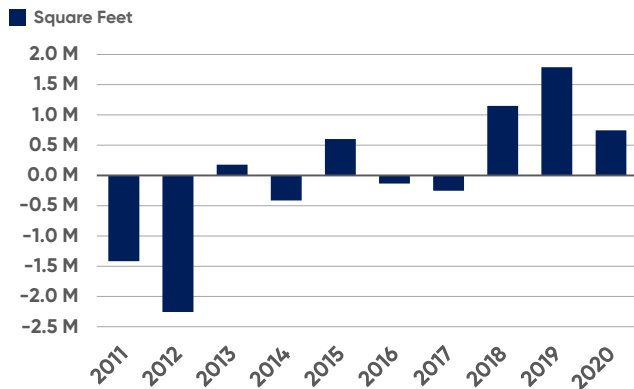
Labor Market

Bureau of Labor Statistics as of May 2020

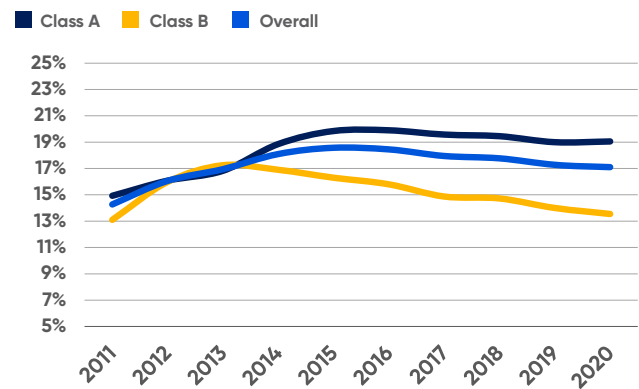


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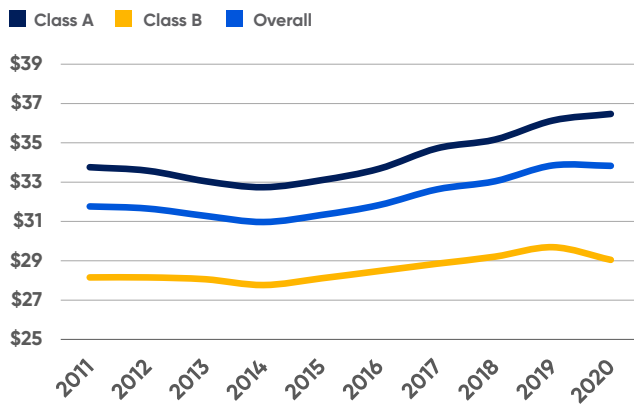
Net Absorption Occupancy Growth



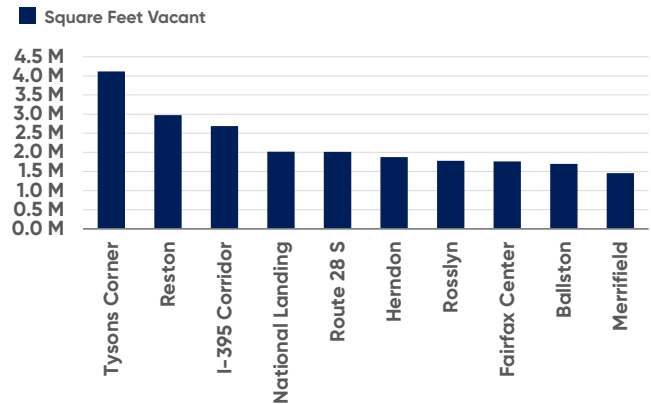
Direct Vacancy Rate



Asking Rent



Top 10 Submarkets for Vacancy



Growth Expected in the Long Term

Near term uncertainty has consumed much of Northern Virginia's real estate narrative; however the region's long-term economic growth remains encouraging. JBG Smith began construction on Amazon's HQ2 in early 2020, beginning the initial phases of the four million SF campus. Also in Q1, Amazon signed for 272,000 SF at 2100 Crystal Drive to accommodate their immediate growth needs. While Amazon-associated tech firms have not flocked to Arlington County yet, the completion of HQ2 in 2022/2023, as well as Virginia Tech's Innovation Center (academic and commercial campus), will certainly boost tech tenancy. Fairfax County has also become a hot spot for large tech firms. Most recently, Microsoft leased nearly 400,000 SF, which will soon serve as their new development hub, employing 1,500 workers in Reston Town Center. Similarly, Facebook, Amazon Web Services, and Walmart Labs have all established large offices in Fairfax County, further strengthening the region's long-term competitive position for tech firms and talent.

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Q2 Top Leases

Tenant	Submarket	Address	Size	Type
Microsoft	Reston	11955 Freedom Drive	396,740	New Lease
Alexandria City Government	I-395 Corridor	4850 Mark Center Drive	214,000	New Lease
Walmart Labs	Reston	2245 Monroe Street	162,357	New Lease
Fairfax County Board of Supervisors	Fairfax City	10777 Main Street	61,000	Renewal
BDO	Tysons Corner	8401 Greensboro Drive	53,382	Renewal

Sublease Market

Recessionary Connection

Following past economic shocks, sublease listings recorded temporary increases as firms reacted to the market uncertainty by listing unused and unnecessary space.

Current Availability

Sublease availability increased by 9.4% (217,974 SF) since the beginning of COVID. Though this is a “high water mark” for the NoVa sublease market, it has not yet reacted as strongly as it had during the Global Financial Crisis or Sequestration.

Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q2	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
Tysons Corner	145	23,732,898	670,198	5,582,077	4,117,519	17.3% ↕	47,328	66,427	\$42.93	\$30.05	\$38.91 ▼	383,628	-	-
Merrifield	87	7,888,739	51,065	1,403,826	1,455,285	18.4% ▼	88,768	109,250	\$31.78	\$27.35	\$31.06 ▼	-	-	-
Fairfax Center	64	7,139,533	160,737	2,079,625	1,764,107	24.7% ▲	(109,705)	(161,358)	\$28.32	\$24.62	\$28.32 ▼	-	-	-
Fairfax City	102	3,622,465	8,410	500,800	441,787	12.2% ▲	(1,435)	12,971	\$27.72	\$24.29	\$24.86 ▲	-	-	-
Reston	158	18,136,549	268,738	3,933,540	2,973,627	16.4% ▲	429,578	486,379	\$35.16	\$26.87	\$33.42 ▼	1,999,987	276,000	276,000
Herndon	125	11,899,721	127,208	3,382,651	1,875,660	15.8% ▼	57,759	87,033	\$35.52	\$24.98	\$32.83 ▼	-	-	-
Route 28 S	146	13,112,708	125,704	2,433,988	2,015,626	15.4% ▲	(255,151)	(98,758)	\$27.93	\$24.06	\$26.69 ▼	-	125,000	125,000
Springfield/Burke	116	5,810,230	110,408	1,325,437	1,181,274	20.3% ▼	27,689	109,730	\$37.84	\$23.50	\$28.85 ▼	634,000	-	-
Fairfax County	943	91,342,843	1,522,468	20,641,944	15,824,885	17.6% ▲	284,831	611,674	\$35.32	\$26.46	\$32.84 ▼	3,017,615	401,000	401,000
Route 28 N	124	8,912,843	20,498	1,428,788	1,427,126	16.0% ▼	48,740	217,591	\$26.69	\$22.40	\$25.66 ▲	510,926	56,025	56,025
Route 7	58	3,031,340	59,559	44,343	278,433	9.2% ▼	(3,198)	20,541	\$33.05	\$22.12	\$28.58 ▼	-	-	-
Leesburg	77	2,533,039	8,730	226,916	184,090	7.3% ▼	34,103	28,791	\$31.71	\$24.70	\$27.23 ▼	-	-	-
Loudoun County	259	14,477,222	88,787	1,700,047	1,889,649	10.8% ▼	79,645	266,923	\$28.88	\$22.79	\$25.95 ▼	510,926	56,025	56,025
Rosslyn	38	9,472,800	178,332	2,151,740	1,778,363	18.8% ▲	15,774	6,821	\$48.58	\$43.56	\$46.57 ▼	-	-	-
Ballston	34	7,741,401	140,581	2,124,542	1,700,825	22.0% ▼	102,999	87,824	\$43.99	\$37.38	\$43.04 ▼	-	240,000	240,000
Clarendon/Courthouse	30	5,173,250	130,146	1,347,625	968,409	18.7% ▲	(22,315)	53,005	\$46.00	\$42.13	\$44.37 ▼	158,994	-	-
Virginia Square	11	1,029,436	7,180	235,146	227,273	22.1% ▲	(1,869)	956	\$42.00	\$37.00	\$40.79 ▲	-	-	-
RB Corridor	113	23,416,887	456,239	5,859,053	4,674,870	20.4% ▲	94,589	148,606	\$46.87	\$42.01	\$44.55 ▼	158,994	240,000	240,000
National Landing	44	12,272,458	169,192	2,793,320	2,020,444	16.5% ▲	60,868	(136,431)	\$45.27	\$39.87	\$43.25 ▼	965,967	-	-
Arlington County	157	35,689,345	625,431	8,652,373	6,695,314	18.4% ▲	155,457	12,175	\$46.43	\$40.99	\$44.13 ▼	1,124,961	240,000	240,000
Old Town Alexandria	128	7,874,349	220,315	1,573,538	1,035,552	13.2% ▼	27,766	23,404	\$39.51	\$32.37	\$37.18 ▼	43,949	-	-
Eisenhower Avenue Corridor	24	4,624,556	14,320	510,930	476,142	10.3% ▲	(6,811)	(616)	\$32.64	\$26.28	\$29.42 ▲	-	-	-
I-395 Corridor	62	7,251,163	14,157	2,857,342	2,686,993	37.1% ▼	(16,128)	(57,096)	\$31.52	\$26.25	\$29.84 ▲	58,460	-	-
Alexandria City	214	19,750,068	248,792	4,941,810	4,198,687	20.2% ▲	4,827	(34,308)	\$34.89	\$28.78	\$32.13 ▼	102,409	-	-
Total	1,754	168,800,065	2,533,872	38,097,528	30,151,731	17.9% ↕	412,208	743,912	\$36.08	\$28.08	\$33.37 ▼	4,755,911	697,025	697,025