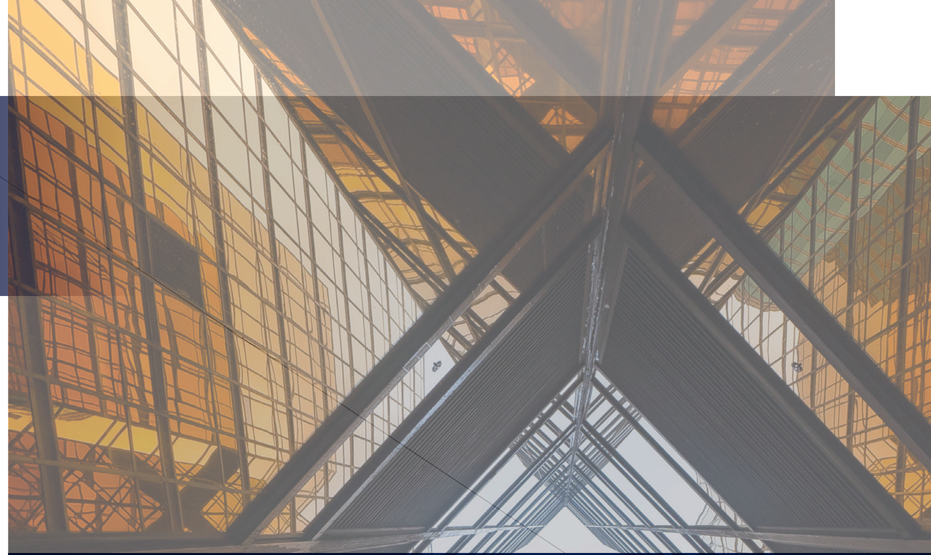
NORTHERN VA OFFICE REPORT

Cresa Research | Q2 2026

Northern VA - Q2 2026

OFFICE REPORT



Market Overview

The Northern Virginia office market continued to show signs of stabilization in the second quarter of 2026. Following 215,731 square feet of negative net absorption in Q1, the market rebounded with 446,292 square feet of positive net absorption in Q2. This reversal suggests that the pace of occupancy losses is beginning to moderate, signaling a potential turning point as the market enters the second half of the year. Reflecting this improvement, the overall vacancy rate declined by 10 basis points quarter-over-quarter to 22.5%.

The overall average asking rent increased 1.5% quarter-over-quarter to $36.15 per square foot, though rates remain down 0.5% year-to-date. Class A asking rents rose 1.4% to $40.04 per square foot, while Class B rents increased 3.6% to $31.23 per square foot. Despite improving market fundamentals, vacancy remains elevated, particularly among Class A properties. Overall vacancy stands at 22.5%, with Class A vacancy at 26.9%, compared with just 16.1% for Class B properties.

Defense contractors continued to drive leasing activity across Northern Virginia, with several sizable commitments reinforcing the region's position as a leading hub for the defense and government contracting industry. The largest lease of the quarter was Peraton's 285,000 square-foot commitment across two buildings on Woodland Pointe Avenue in Herndon. Investment activity also strengthened during the quarter, highlighted by several notable acquisitions. Penzance acquired 2000 14th Street North in the Courthouse submarket from Domain Capital, MRP Realty purchased 8614 Westwood Center Drive from Vireo Capital, and Crown Properties Inc. acquired 12930 Worldgate Drive from Santander Bank.

NOTABLE LEASE TRANSACTIONS

Tenant	Property	Submarket	Square Feet
Peraton	2200 Woodland Pointe Ave	Herndon	285,000
CGI Federal	12601 Fair Lakes Cir	Fairfax Center	146,000
Strategy	1850 Towers Crescent Plz	Tysons Corner	142,000
Innovative Defense Technologies	4250 N Fairfax Dr	Ballston	70,000

BUILDING CLASS COMPARISON

Asset Class	Full Service Rent Per SF	Q-Q % Change	YTD % Change
Class A	$40.04	1.4%	0.9%
Class B	$31.23	3.6%	5.5%
Overall	**$36.15**	**1.5%**	**-0.5%**

NORTHERN VA KEY PERFORMANCE INDICATORS

Vacancy Rate
22.5%
Q2 2026

Net Absorption
446,292
Q2 2026

Direct Asking Rent
$36.15/SF
Q2 2026

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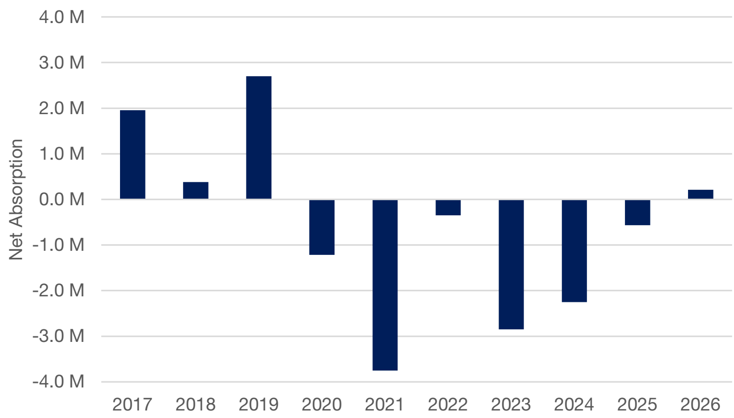
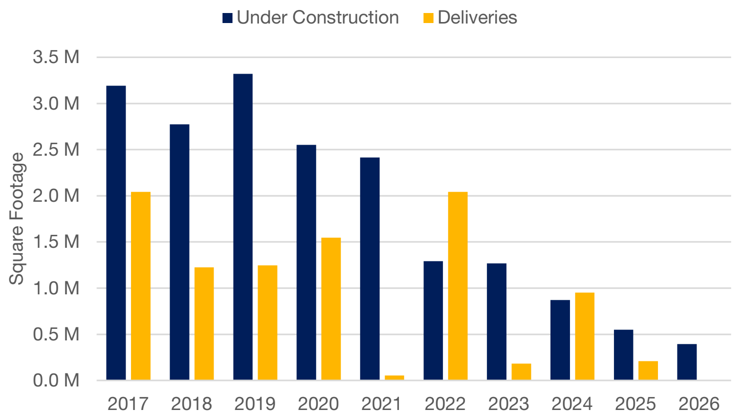
MARKET AT A GLANCE

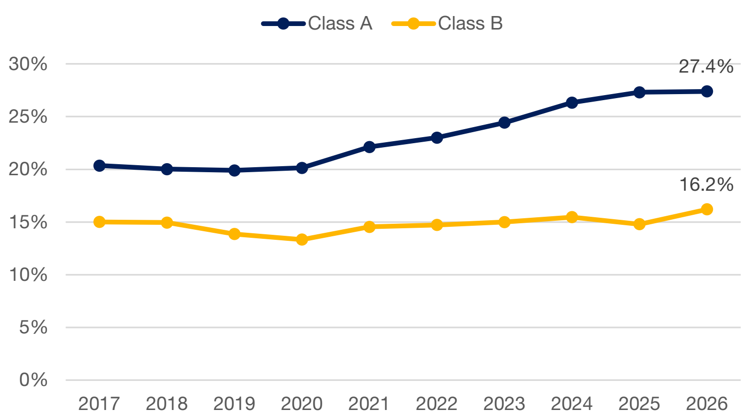
OCCUPANCY TRENDS



CONSTRUCTION SNAPSHOT



VACANCY



MARKET INSIGHTS

Net absorption totaled 446,292 square feet during the quarter, bringing year-to-date absorption to 211,639 square feet. Class A properties led market gains, recording 461,265 square feet of positive absorption, while Class B assets experienced a modest loss of 5,128 square feet. Despite recent improvements, Class B properties remain the primary source of market losses, totaling 117,453 square feet of negative absorption year-to-date. Since 2020, both Class A and Class B assets have experienced negative absorption in 20 of the past 26 quarters, resulting in cumulative losses of nearly 7 million square feet and 4 million square feet, respectively.

Northern Virginia's office construction pipeline has slowed significantly, driven by uncertain tenant demand, elevated construction costs, new tariffs, and broader economic headwinds. Currently, 394,606 square feet of office space is under construction, with activity concentrated in the Route 7, Springfield, and Merrifield submarkets. One of the few active developments is 7125 W Falls Station Boulevard, a 270,000-square-foot Class A project in Merrifield that is fully pre-leased as HITT Construction's new headquarters. No new office deliveries were recorded during Q2 2026, further highlighting the slowdown in new supply entering the market.

The Northern Virginia office market continues to exhibit a pronounced divide between Class A and Class B properties. As of Q2 2026, Class B buildings maintain a lower average vacancy rate of 16.2%, while Class A vacancy remains substantially higher at 27.3%. Several submarkets are driving the elevated vacancy within the Class A segment, most notably Ballston, National Landing, and I-395 Corridor. Notably, Leesburg Pike in the I-395 submarket has four Class A office buildings that remain largely vacant. These sizable blocks of available space continue to weigh on overall Class A vacancy, as landlords face ongoing challenges attracting tenants amid persistent uncertainty and evolving office space demand.

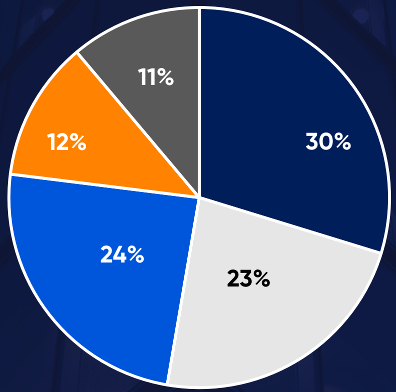
Subleasing continues to play a significant role in VA office market

The sublease market continues to play a significant role in Northern Virginia's office landscape. As of Q2 2026, approximately 253 sublease spaces are available across the region, totaling just over 3 million square feet of office space. Since peaking at nearly 6 million square feet in Q4 2022, available sublease inventory has steadily declined, reaching its lowest level since 2020. The continued reduction in sublease availability suggests that companies are gradually right-sizing their office footprints and that market conditions are moving toward greater stability.

Roughly 66% of available subleases fall between 5,000 and 30,000 square feet, offering a range of flexible options for tenants. Pricing has remained competitive, with 53% of current offerings asking between $25.00 and $35.00 per square foot. Most sublease listings continue to be priced below direct market rates, placing additional pressure on landlords competing for tenants.

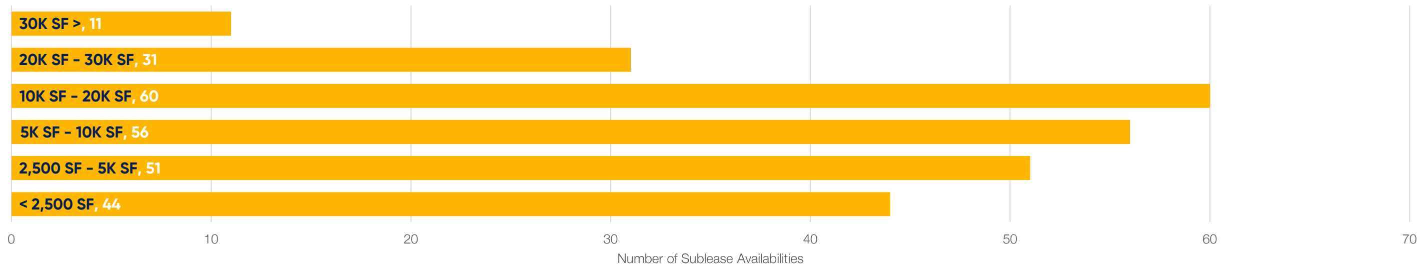
Quarterly sublease activity was largely concentrated in the Tysons submarket, where eight new availabilities totaling approximately 52,000 square feet were added during the quarter. In contrast, the Rosslyn submarket saw only two new availabilities. At the same time, more than 50,000 square feet of available sublease space was removed from the market in Rosslyn, contributing to the region's overall decline in sublease inventory.

SUBLEASE INVENTORY BY SUBMARKET

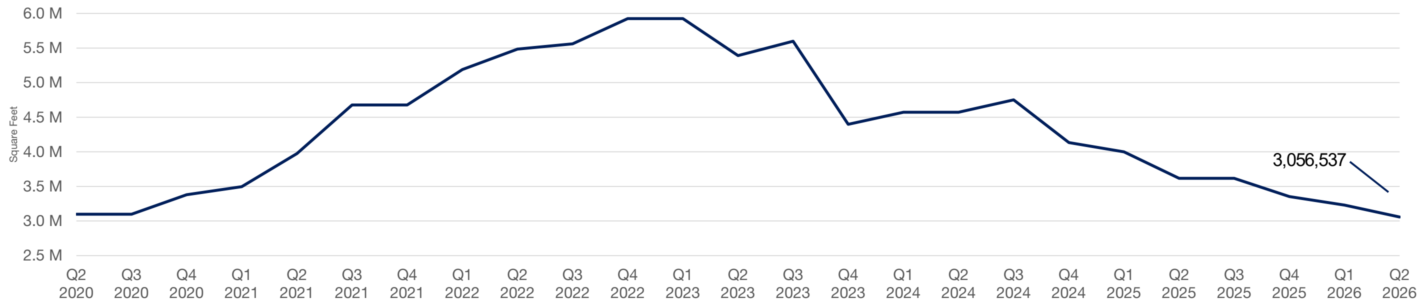


• 21.2 Average Months on Market

DISTRIBUTION OF SUBLEASE AVAILBILITIES BY SQUARE FOOTAGE



NORTHERN VA TOTAL SUBLEASE AVAILABILITY



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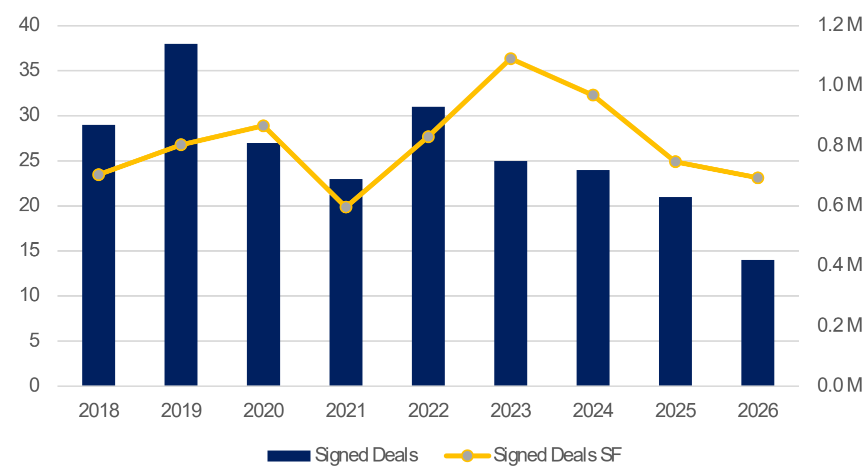
DEFENSE SECTOR LEASING REMAINS A MARKET DRIVER

KEY INDUSTRY SIGNALS

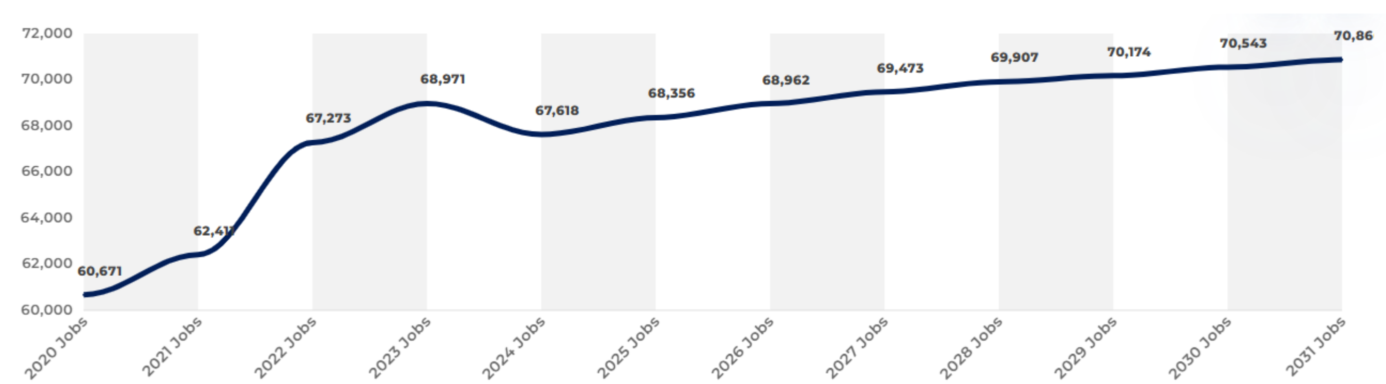
- Faster development and deployment timelines
- Growing overlap between technology and national security sectors
- Greater emphasis on AI, cybersecurity, and autonomous systems
- Increasing participation from startups and mid-sized firms

Defense and government contractors represented the largest share of leasing activity in Northern Virginia during the second quarter of 2026, underscoring the sector's continued role as a primary driver of office demand. While the number of signed defense leases has fluctuated over time, leasing activity has remained resilient. Although the number of transactions peaked in 2019, total leased square footage reached its highest levels in 2022 and 2023, reflecting a shift toward larger transactions. Activity moderated between 2024-2026, but defense companies continue to expand their presence in the region, supported by sustained investment in national security, emerging technologies, and mission-driven capabilities.

SIGNED DEFENSE DEALS OVER TIME (2018-2026)



GROWTH OF SOFTWARE DEVELOPERS



Software developers are among the most in-demand occupations supporting the defense technology industry. The graph above shows continued software developer employment growth across the Washington Metro area since 2020, with further growth projected through 2037. Although the data reflects the broader Washington Metro area rather than Northern Virginia alone, it serves as a strong proxy for the region's defense talent ecosystem. Northern Virginia remains a hub for defense innovation due to its proximity to federal agencies, concentration of security-cleared professionals, and deep technology workforce.

SUBMARKET STATISTICS - ALL CLASSES

Submarket	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
Annandale	18	1,124,656	-	183,879	13.6%	13.6%	8,040	-	-	$28.55
Ballston	35	7,889,937	137,272	2,342,468	26.4%	26.9%	139,496	-	-	$43.56
Clarendon/ Courthouse	28	5,594,992	150,599	1,269,613	24.5%	26.1%	73,142	-	-	$43.24
Eisenhower/ Huntington	30	5,505,198	50,237	1,298,912	27.3%	27.3%	12,342	-	-	$36.12
Fairfax Center	45	5,821,950	111,828	1,522,283	26.5%	27.7%	(67,112)	-	-	$31.15
Fairfax City	51	2,611,076	5,844	335,607	10.9%	11.1%	15,375	-	-	$26.63
Falls Church	24	1,344,064	18,414	203,409	12.8%	13.0%	7,550	-	-	$28.14
Herndon	85	10,602,364	187,951	2,975,400	26.4%	27.2%	153,026	-	-	$34.69
I-395	37	4,852,994	27,695	1,091,144	37.1%	37.3%	(18,271)	-	-	$32.22
Leesburg/ West Loudoun	35	1,760,443	-	197,361	8.2%	8.2%	(24,509)	-	-	$34.16
Manassas	20	771,998	-	22,322	2.7%	2.7%	(2,086)	-	-	$25.59
McLean	15	748,546	7,245	77,003	8.9%	9.4%	3,580	-	-	$34.32
Merrifield	66	7,616,035	119,709	1,598,941	18.4%	18.7%	26,183	270,000	-	$34.56
National Landing	41	12,572,315	380,274	3,253,973	30.0%	32.2%	80,242	-	-	$40.70
Oakton	10	1,228,862	1,774	46,385	26.2%	26.2%	(2,372)	-	-	$21.76
Old Town Alexandria	83	6,640,796	168,777	1,610,407	19.8%	21.2%	(124,760)	-	-	$37.47
Reston	134	18,741,387	277,485	4,322,152	24.8%	25.6%	(6,319)	-	-	$34.86
Rosslyn	31	8,771,941	68,689	1,642,707	19.3%	19.9%	146,204	-	-	$44.60
Route 28 Corridor North	87	6,683,527	38,041	684,880	8.5%	8.7%	(34,062)	-	-	$30.44
Route 28 Corridor South	122	12,969,631	120,219	1,838,705	13.1%	13.7%	(47,681)	-	-	$31.79
Route 29/I-66 Corridor	41	2,132,356	1,740	82,376	1.8%	1.9%	1,561	-	-	$27.26
Route 7 Corridor	40	2,270,356	5,193	245,369	9.1%	9.4%	58,355	44,606	-	$32.27
Springfield/ Burke	68	4,991,891	21,007	758,884	16.7%	17.1%	21,429	80,000	-	$33.58
Tysons Corner	118	21,821,076	527,247	6,526,548	24.3%	25.1%	(172)	-	-	$40.12
Vienna	12	1,019,959	-	22,426	37.8%	37.8%	2,790	-	-	$30.24
Virginia Square	10	1,082,515	33,396	224,056	20.4%	21.9%	5,483	-	-	$44.00
Woodbridge	44	1,666,112	17,205	-	8.6%	8.6%	18,838	-	-	$26.30
Overall	1,330	158,836,977	2,477,841	34,377,210	21.7%	22.5%	446,292	394,606	-	$36.15

MARKET STATISTICS BY CLASS

Class	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
Class A	493	93,974,552	1,847,507	24,384,249	25.9%	26.9%	461,265	394,606	-	$40.04
Class B	837	64,423,946	628,414	10,128,079	15.6%	16.1%	(5,128)	-	-	$31.23

ABOUT THE AUTHOR

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Anna is responsible for a wide range of research tasks to support Cresa's advisors in the Washington, DC, Baltimore, and Richmond regions, directly impacting clients' real estate decisions. She utilizes her experience in Real Estate Analytics to produce high-quality market research deliverables such as quarterly market reports, industry trends, competitor analyses, and ad hoc data analyses and reporting.

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