

# Northern Virginia

## Northern Virginia Fundamentals Continue to Improve



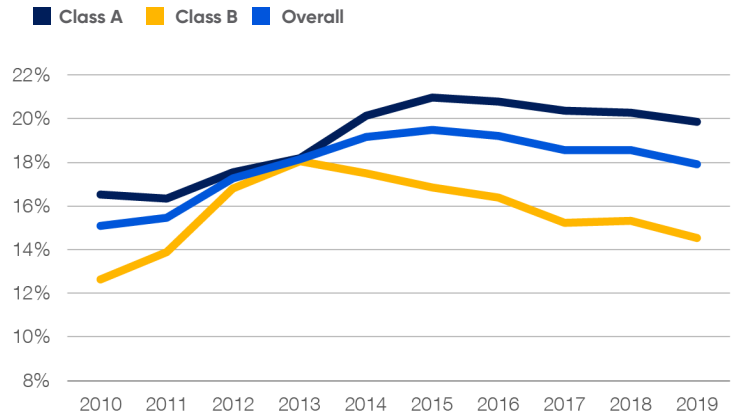
### Executive Summary

Strong occupancy expansion in the fourth quarter drove Northern Virginia's year-end net absorption to a ten-year high of 1.5 million SF. Tenant growth is expected to continue in early 2020 as Amazon moves into its first two buildings (1770 Crystal Drive and 1800 S Bell Street) and, presumably, begins actively attracting new contracts, competitors, and technology entrepreneurs to the market. Total absorption was recorded at 290,330 SF, which marks the fifth consecutive quarter of positive net absorption in Northern Virginia. Vacancy has been trending down across all building classes, with total vacancy reaching 17.7% in Q4.

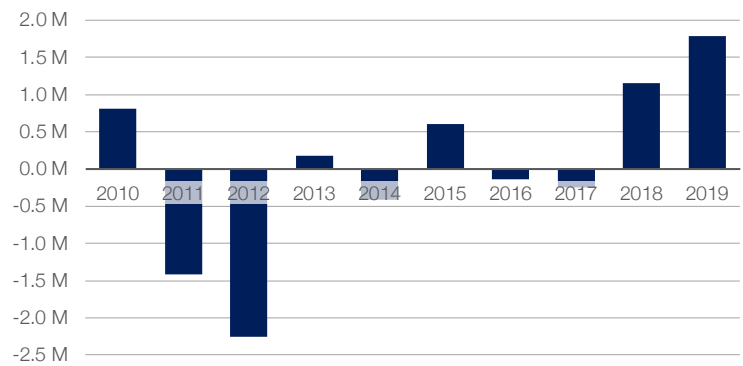
Leasing activity was strongest in Fairfax County, where year-to-date occupancy growth has been positive in all but one office submarket (Merrifield). While NoVa's suburban markets had been falling out of favor among tenants in the early 2010s, recent infrastructure investments (Silver Line), and mixed-used development activity have sparked new demand along the Route 28 Corridor, Reston and Herndon submarkets.

Northern Virginia's job market has been steady for the last four years. Total employment has grown by 27,600 jobs over the previous year, which is in-line with its long-term average. Office-using employment growth added 9,100 new office-using jobs. In recent years, Northern Virginia has consistently led the other regional jurisdictions (District of Columbia and Suburban Maryland) in office-using job growth.

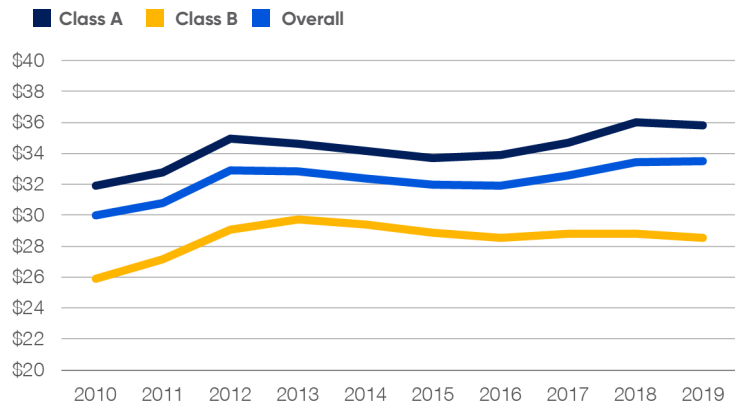
### Average Vacancy Rate



### Net Absorption



### Average Asking Rent



### Q4 Key Market Indicators

<b>Total Vacancy</b>	▼ 17.7%
<b>Net Absorption</b>	290,330 SF
<b>Rental Rate</b>	▲ \$34.68/SF
<b>Deliveries (YTD)</b>	681,775 SF (100,000 SF Net New)

## Vacancy and Rental Rates

The vacancy rate in Northern Virginia decreased by 70 basis points (bps) from year-ago levels to 17.7%. Though vacancy has been on a downward trend over the last year, overall levels remain elevated. Class A vacancy increased by 50-bps to 19.5% while Class B vacancy fell 90-bps to 13.6%. Among counties, Loudoun and Fairfax recorded the lowest vacancy rates at 14.6% and 17.4%, respectively. Fairfax County is headlined by Reston, where vacancy is just 14.0%. Even tighter conditions are present within high-demand suburban “micro markets”, such as Reston Town Center (9.4% vacancy within 0.5 miles).

Asking rental rates increased \$1.74/SF from year-ago levels to \$34.68/SF. Class A asking rents rose \$0.30/SF to \$36.12/SF, while Class B rents rose \$2.12/SF to \$29.76/SF. The largest increase in asking rents was recorded in Arlington County, where the promise of Amazon-associated demand has continued to drive landlord optimism. Asking rents in National Landing have jumped to as high as the mid-\$50s in anticipation of new tenant demand.

## Supply and Demand

There is 36.9 million SF of available space for lease across Northern Virginia, with 27.5 million SF in Class A and 9.6 million SF in Class B. Although Northern Virginia has a robust development pipeline, new construction has not substantially added to NoVa’s elevated availability rate. Several office projects under construction are pre-leased or owner-occupied, such as ICF International at 1902 Reston Metro Plaza, and General Dynamics at 11011 Sunset Hills Road. As firms relocate to new owner-occupied or build-to-suit buildings, they will subsequently leave large blocks of availability in their formerly-occupied buildings. With 3.3 million SF of new office space expected to deliver by 2020, relocating firms could meaningfully contribute to availability and vacancy as they leave existing buildings for their new facilities.

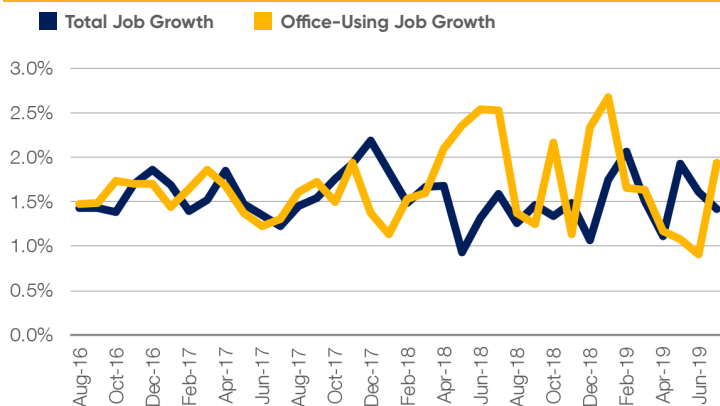
Overall, there is 5.3 million SF currently under construction. The construction pipeline across Northern Virginia remains active as 4040 Wilson Boulevard is expected to deliver 30% preleased (AvalonBay) in early 2020. Additionally, the renovations at 115 S Union Street and 5600 Columbia Pike are expected to deliver early 2020 as well.

## Market Outlook

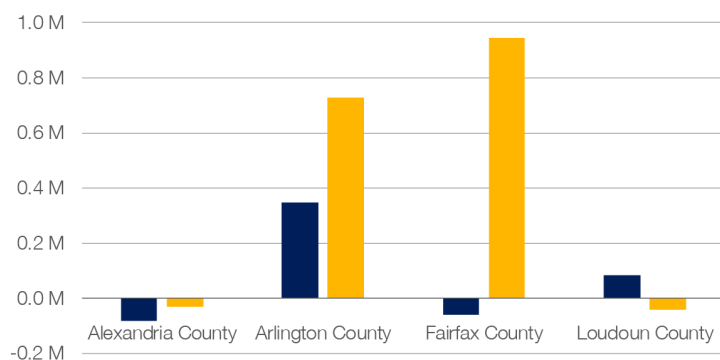
Northern Virginia office markets are beginning to show signs of tightening both inside and outside the Beltway. Rent appreciation in major suburban markets such as Tysons Corner, Reston, and National Landing are forcing tenants to consider more cost-effective secondary markets. Tenants can expect to see landlord-favorable “micro markets” develop in high-demand/transit-accessible areas of suburban submarkets (Reston Town Center, Wiehle-Reston Metro Station).

Demand is expected to remain healthy across several sectors, including technology and government contracting. Amazon’s future headquarters in National Landing will invariably drive demand to Arlington and Alexandria, tightening the office markets in both areas. Despite expected long-term market tightening, a significant oversupply of outdated office inventory will make dramatic changes to regional fundamentals unlikely in the near term. Much of the market will remain tenant-favorable until Amazon is fully established in the region after 2024.

## Employment Growth by Month



## Net Absorption by County



## Q4 Top Leases

Tenant	Address	Submarket	Size	Type
ICF International	1902 Reston Metro Plaza	Reston	207,000	New
Facebook	1818 Library St	Reston	74,713	New
Virginia Cancer Specialists	8613 Lee Highway	Merrifield	64,258	New
Optimal Solutions and Technologies	2010 Corporate Ridge	Tysons Corner	33,813	New
Winrock International	2451 Crystal Drive	National Landing	30,616	New

## Q4 Top Sales

Building	Submarket	Size	Price	Price (PSF)	Buyer	Seller
875 N Randolph St	Ballston	319,327	\$151,200,000	\$473.50	USAA Real Estate	Carr Properties
1735 N Lynn St	Rosslyn	295,271	\$128,800,000	\$436.21	Altus Realty Partners	The Meridian Group
2550 S Clark St	Crystal City	349,303	\$123,230,000	\$352.79	Starwood Capital Group	Beacon City Partners
1525 Wilson Blvd	Rosslyn	318,494	\$113,150,000	\$355.27	The Meridian Group	The Blackstone Group
4075 Wilson Blvd	Ballston	178,700	\$93,200,000	\$521.54	Oaktree Real Estate Income Trust	Westbrook Partners

## Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption (Q4 2019)	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Constr.	SF Delivered YTD
Tysons Corner	147	23,750,691	514,974	5,505,291	4,138,901	▼ 17.4%	(55,974)	541,196	\$43.29	\$29.29	▲ \$39.60	-	581,775
Merrifield	87	7,911,703	76,777	1,568,247	1,532,859	▲ 19.4%	(202,151)	(80,314)	\$33.98	\$29.74	▲ \$31.48	-	-
Fairfax Center	64	7,153,761	205,922	2,137,941	1,651,413	▼ 23.1%	31,869	110,650	\$31.77	\$25.02	▼ \$28.11	-	-
Fairfax City	103	3,652,354	9,401	519,316	451,970	▼ 12.4%	54,711	81,900	\$27.82	\$24.17	▼ \$24.42	-	-
Reston	154	17,794,146	379,393	3,838,703	2,490,527	▲ 14.0%	(149,170)	(493,589)	\$36.33	\$29.33	▲ \$32.98	2,275,987	-
Herndon	126	11,942,254	147,074	2,566,834	1,856,644	▼ 15.5%	84,742	318,063	\$34.85	\$25.19	▲ \$32.53	-	-
Route 28 S	145	12,899,399	176,228	2,440,547	1,784,585	▼ 13.8%	167,482	353,763	\$29.81	\$24.10	▲ \$27.05	125,000	-
Springfield	117	5,867,919	54,039	1,300,223	1,112,453	▼ 19.0%	9,991	114,231	\$36.47	\$22.68	▼ \$29.00	634,000	-
Fairfax County	1,038	97,948,577	636,323	22,525,481	17,029,851	▼ 17.4%	(58,500)	945,900	\$35.16	\$26.71	▲ \$32.52	3,034,987	581,775
Route 28 N	124	9,016,266	16,319	1,629,410	1,642,508	▲ 18.2%	45,424	(52,234)	\$27.51	\$24.75	▲ \$25.45	566,951	-
Route 7	59	3,071,340	25,831	488,569	350,404	▲ 11.4%	9,285	27,832	\$28.62	\$26.36	▲ \$28.45	-	-
Leesburg	77	2,534,894	4,399	275,346	212,881	▲ 8.4%	27,304	(15,055)	\$28.48	\$25.94	▲ \$27.12	-	-
Loudoun County	260	14,622,500	27,549	2,393,325	2,205,793	▲ 14.6%	82,013	(39,457)	\$27.77	\$25.38	▲ \$26.83	566,951	-
Rosslyn	38	9,461,314	163,997	2,122,850	1,645,230	▼ 17.4%	240,229	444,731	\$51.87	\$39.43	▼ \$47.65	-	-
Clarendon/Courthouse	30	5,195,942	70,254	1,281,468	944,701	▲ 18.2%	(12,132)	(73,941)	\$48.70	\$41.59	▼ \$46.00	158,994	-
Ballston	33	7,428,766	199,061	2,078,021	1,676,776	▼ 22.6%	30,214	218,153	\$46.38	\$37.19	▼ \$45.68	240,000	-
Virginia Square	11	1,029,436	7,180	255,554	228,229	▲ 22.2%	3,628	(27,589)	\$43.48	\$34.54	▼ \$42.36	-	-
RB Corridor	112	23,115,458	440,492	5,737,893	4,494,936	▼ 19.4%	261,939	561,354	\$48.43	\$39.41	▲ \$46.33	398,994	-
Crystal City	44	12,200,108	203,311	2,533,562	1,874,591	▼ 15.4%	86,119	168,378	\$45.56	\$39.42	▲ \$43.37	965,967	100,000
Arlington County	156	35,315,566	643,803	8,271,455	6,369,527	▼ 18.0%	348,058	729,732	\$47.62	\$39.41	▲ \$45.43	1,364,961	100,000
Old Town	128	7,475,518	280,522	1,651,499	1,187,801	▲ 15.9%	(91,942)	(48,408)	\$36.40	\$30.24	▲ \$35.70	-	-
Eisenhower Ave.	24	4,624,556	23,279	502,632	468,957	▲ 10.1%	(31,718)	(37,061)	\$37.96	\$26.77	▼ \$37.22	-	-
I-395	62	7,309,513	17,587	2,944,437	2,642,626	▼ 36.2%	42,461	54,943	\$31.38	\$26.68	▼ \$29.68	299,766	-
Alexandria County	189	15,659,508	227,630	3,698,065	3,010,019	▲ 19.2%	(162,241)	(111,568)	\$36.46	\$29.56	▲ \$34.23	299,766	-
<b>Total</b>	<b>1,655</b>	<b>164,261,683</b>	<b>1,172,830</b>	<b>36,895,255</b>	<b>28,663,437</b>	<b>▼ 17.7%</b>	<b>209,330</b>	<b>1,524,607</b>	<b>\$36.12</b>	<b>\$29.76</b>	<b>▲ \$34.68</b>	<b>5,266,665</b>	<b>681,775</b>

\*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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