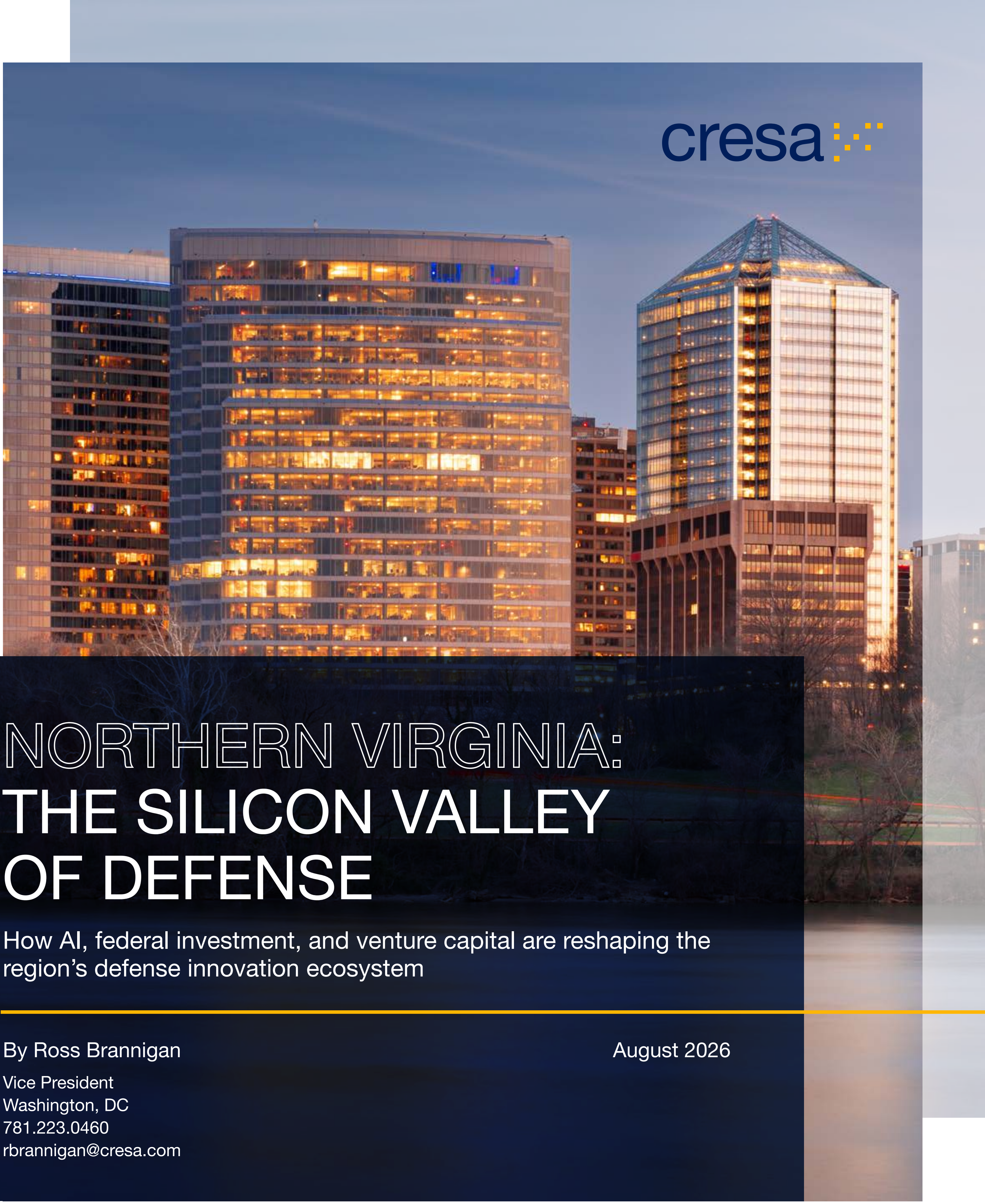

NORTHERN VIRGINIA: THE SILICON VALLEY OF DEFENSE

How AI, federal investment, and venture capital are reshaping the region's defense innovation ecosystem

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EXECUTIVE SUMMARY

Artificial intelligence is reshaping the defense industry. Venture capital investment in defense technology is accelerating. Startups and mid-sized firms are gaining greater access to defense work, and Northern Virginia is seeing sustained leasing activity from companies operating at the intersection of AI, cybersecurity, aerospace, and national security.

Northern Virginia is emerging as a uniquely concentrated ecosystem for defense innovation, bringing together talent, capital, technology, infrastructure, and strategic access in a way few markets can replicate.

The region is increasingly functioning as what Cresa views as the “Silicon Valley of Defense.” The office market is already beginning to reflect this shift.

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The Defense Industry Is Evolving

For decades, defense contracting was largely dominated by major companies such as Boeing, Northrop Grumman, and Lockheed Martin. Defense innovation centered around large-scale platforms, long procurement cycles, and highly concentrated contract structures.

Today, the industry is evolving rapidly.

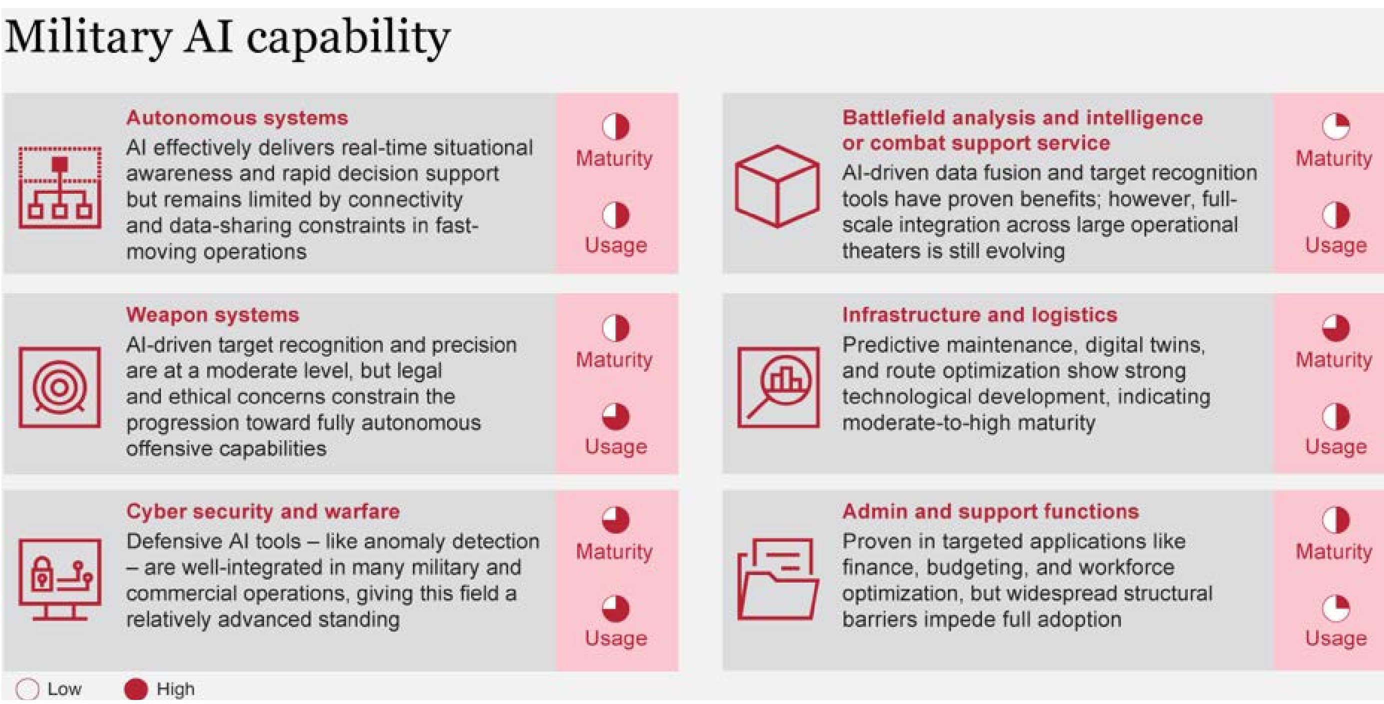
AI is Reshaping Defense Priorities

Artificial intelligence, cybersecurity, drones, and data analytics are becoming increasingly central to modern defense priorities. According to PwC Strategy&, these technologies favor speed, software integration, and specialized technical capabilities over the slower development cycles traditionally associated with legacy defense programs.

PwC Strategy& also highlights the expanding role of AI across defense operations, including cybersecurity, logistics, battlefield intelligence, and autonomous systems.

KEY INDUSTRY SIGNALS

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



Source: https://www.strategyand.pwc.com/de/en/industries/aerospace-defense/ai-in-defense.html

The growing role of AI in defense is changing the type of companies participating in the industry. Software-driven capabilities often require faster development cycles and highly specialized technical expertise, creating opportunities for a broader range of firms beyond traditional defense contractors.

Geopolitical tensions are further accelerating this shift. Recent conflicts, including the escalation between Israel and Iran, have heightened focus on military readiness and defense modernization, increasing demand for technologies such as AI, autonomous systems, cybersecurity, and intelligence platforms.

This shift is changing both who participates in defense innovation and how growth occurs across the sector.

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Capital and Innovation Are Expanding Beyond Traditional Contractors

Startups Are Gaining a Larger Role

Historically, many emerging technology firms have struggled to access defense work due to long procurement timelines and high barriers to entry.

Today, government agencies are increasingly engaging with startups and mid-sized firms through pilot programs, innovation initiatives, and targeted contract pathways. Organizations such as the Defense Innovation Unit and DARPA are increasingly working with venture-backed startups and technology-focused firms.

Within this environment, companies like Anduril Industries have become emblematic of the evolving model. The company, known for developing AI-powered defense and surveillance technologies for the U.S. military, is approaching nearly 100,000 square feet of occupancy across Reston Town Center, in addition to its space at 909 E Street in downtown Washington, reflecting a multi-node footprint that spans both engineering and government-facing operations.

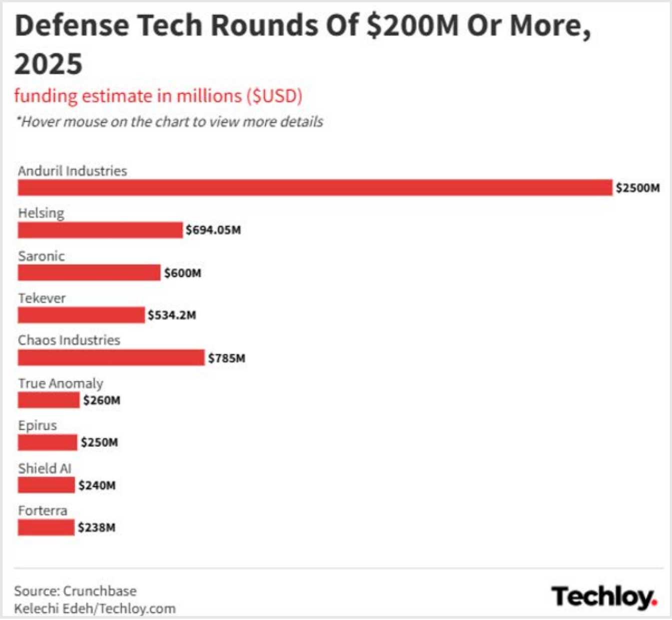
Other leading firms are exhibiting similar patterns across key Northern Virginia submarkets. Shield AI has established a 40,000-square-foot presence in Crystal City, while Forterra occupies a full floor at 1515 Clarendon Boulevard, reinforcing sustained demand across Arlington and the broader Rosslyn-Ballston corridor.

Beyond these anchor tenants, leasing activity among growth-stage defense and cybersecurity firms continues to expand across Northern Virginia. GRVTY signed a 46,000-square-foot lease in Herndon in early 2026 to support continued growth, while Blue Sky Innovators expanded its Reston footprint by 20,000 square feet as part of a $7 million investment expected to create nearly 200 jobs. Collectively, these transactions illustrate how demand is broadening across a wider range of technology-focused firms alongside traditional defense contractors.

Investment Is Accelerating

Another signal of this shift is the rapid growth of venture capital investment in defense technology. S&P Global Market Intelligence reports that venture capital investment in defense technology has surged, while Techloy's analysis of Crunchbase data highlights growing investor interest in large defense technology funding rounds.

This growth is being driven by more than technological advancement alone. Increasing geopolitical competition, particularly between the United States and China, has elevated AI from a commercial innovation priority to a national security priority. Policymakers and defense leaders increasingly view AI as a strategic capability that may influence future military readiness, economic competitiveness, and technological leadership. As a result, both public and private investment in defense-focused AI technologies has accelerated significantly.



The increase in defense technology funding suggests that investors increasingly view defense technology as a long-term growth category rather than a niche segment of the market. As capital enters the sector, companies may scale more quickly and expand hiring and operational footprints earlier in their growth cycles.

The Defense Innovation Ecosystem Is Expanding

Taken together, these trends suggest that defense innovation is no longer concentrated among a small group of traditional contractors, but is instead distributed across a broader network of companies operating more like technology firms.

CHARACTERISTICS OF THE EMERGING DEFENSE TECH ECOSYSTEM

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

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Northern Virginia Sits at the Center of These Trends

Strategic Access Drives Growth

As these trends accelerate nationally, Northern Virginia is increasingly becoming the operational center supporting them.

The region offers direct proximity to the Pentagon, federal agencies, contractors, and policymakers. While Washington, DC serves as the nation's center for government, policy, and nonprofit activity, Northern Virginia has evolved into the region's operational and technology hub. As a result, defense and defense technology firms are increasingly gravitating toward submarkets such as Tysons, Reston, Herndon, and Crystal City. **These markets offer access to clients, agencies, and decision-makers that are difficult to replicate elsewhere.**

Northern Virginia also provides an established ecosystem of contractors, consultants, and technology talent with experience supporting government initiatives. This creates a network effect where companies can integrate more quickly into existing relationships and procurement pathways.

Beyond proximity and industry relationships, the region offers access to one of the nation's largest concentrations of security-cleared professionals. For defense technology companies developing AI-enabled systems, cybersecurity tools, and classified applications, access to cleared engineers and technical specialists can significantly accelerate deployment timelines by reducing the delays associated with obtaining new security clearances. Many of these professionals also bring firsthand experience supporting defense and intelligence missions, providing domain expertise that can help companies develop and deploy technologies more effectively within government environments. This talent advantage is difficult to replicate in many other technology markets and continues to reinforce Northern Virginia's position within the evolving defense innovation ecosystem.

Capital Is Following the Ecosystem

The region is attracting significant investment while also supporting institutions that help direct capital toward emerging defense technologies. Recent funding rounds, acquisitions, and expansion announcements across McLean, Tysons, Arlington, and Crystal City demonstrate growing investor confidence in Northern Virginia's role within the defense technology ecosystem. From venture-backed startups developing AI-powered procurement tools to major firms investing billions in AI-focused capabilities, capital is increasingly flowing into the region alongside talent and innovation.

Northern Virginia's investment ecosystem is also supported by institutions that help accelerate defense innovation. Arlington-based In-Q-Tel, the nonprofit strategic investor that identifies and funds emerging technologies for the U.S. intelligence and national security community, led all organizations in the 2025 NatSec100 report with 33 investments in national security technology companies. **Its presence further reinforces Northern Virginia's role not only as a destination for defense technology firms, but also as a region helping shape the next generation of defense innovation.**

Northern Virginia Defense Tech & AI Investment Highlights

Company	Location	Recent Investment / Expansion
BigBear.ai	McLean	Acquired Ask Sage for $250M
Guidehouse	Tysons	Committed $1.5B to AI Center of Excellence
Govini	Arlington	Secured $150M private equity investment
Interos	Arlington	Raised $309M+ to date
Andesite AI	McLean	Raised $23M funding round
Procurement Sciences	Arlington	Raised $40M across Series A & B
pWin.ai	Tysons	Raised $10M seed round
Seekr	Tysons	Pursuing $100M funding round
Quartermaster AI	Arlington	Raised $43M Series A

Investor interest is being reinforced by growing adoption across the defense sector. Several leading defense technology companies have recently secured major contract awards, signaling that AI-enabled capabilities are moving from experimentation to deployment.

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Contract Awards Highlights

Company	Date	Value	Agency
Anduril	March 2026	$20.0 Billion	U.S. Army
Palantir Technologies	July 2025	$10.0 Billion	U.S. Army
Scale AI	May 2026	Up to $500 Million	U.S. Department of Defense
BigBear.ai	2025	$13.2 Million	Joint Chiefs of Staff
BigBear.ai	May 2026	Up to $53 Million	Defense Intelligence Agency

These contract awards reinforce that defense AI is moving beyond pilot programs and early experimentation into operational deployment at scale. As government agencies commit substantial funding to AI-enabled platforms, demand for the companies developing these technologies and for the regional ecosystems that support their growth is likely to continue expanding.

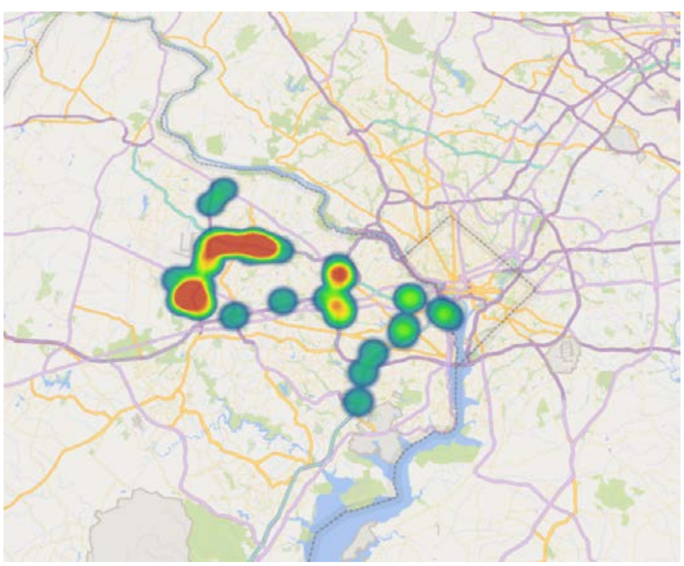
The Silicon Valley of Defense?

Taken together, these dynamics increasingly resemble the characteristics that have historically defined major innovation ecosystems. **Capital, talent, infrastructure, and strategic relationships are becoming increasingly concentrated within a connected regional market.**

While Silicon Valley emerged around consumer technology and venture-backed startups, Northern Virginia is developing its own ecosystem centered on defense, artificial intelligence, cybersecurity, and national security infrastructure.

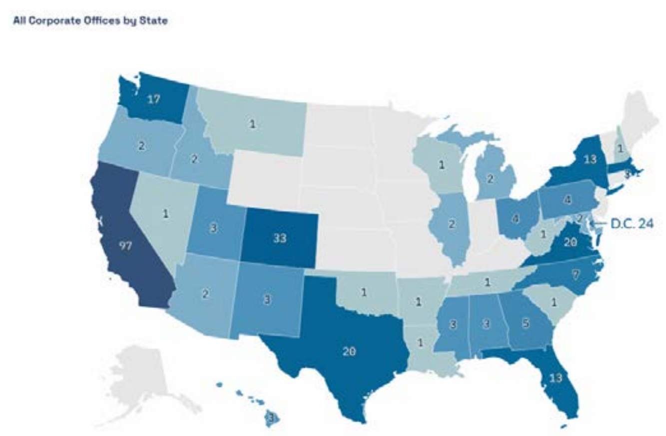
Many of the defense technology companies driving innovation today remain headquartered in California and Texas, where venture capital and product development activity are heavily concentrated. However, Northern Virginia is increasingly serving as the point where these technologies intersect with government agencies, military operators, and procurement systems.

Defense Tech Office Locations in Northern Virginia



The clustering of activity across Reston, Herndon, Chantilly, and Tysons resembles patterns often seen in broader innovation ecosystems, where proximity to talent, infrastructure, and strategic relationships creates compounding growth effects over time.

This clustering is also reflected in broader industry data. According to the 2025 NatSec100 report, the Washington metropolitan area—including Northern Virginia—hosts one of the nation's largest concentrations of national security technology companies, second only to California. Rather than replacing established innovation hubs on the West Coast, Northern Virginia has become a critical expansion market where defense technology firms establish operational hubs closer to federal agencies, military leadership, and acquisition decision-makers.



Source: NatSec100 Report Pg. 48

WHY NORTHERN VIRGINIA

- Direct access to federal agencies and decision-makers
- Established contractor ecosystem
- Highly educated population
- High concentration of security-cleared cybersecurity and technology talent
- Infrastructure supporting technical and government-related operations
- Strong overlap between technology and government sectors

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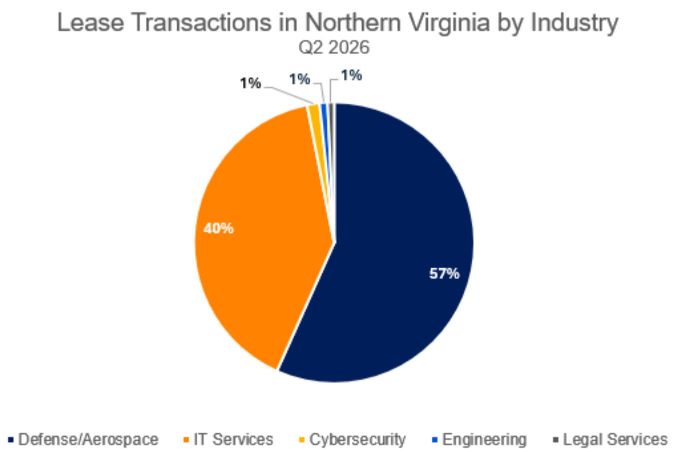
The Office Market Is Beginning to Reflect the Shift

Defense Demand Is Shaping Leasing Activity

The growth of defense and defense technology firms is increasingly influencing office demand across Northern Virginia.



Defense and government contractors represented the largest share of leasing activity in Northern Virginia during the second quarter of 2026, highlighting the sector's influence on market demand.

These transactions suggest that growth is not isolated to a single company type or subsector. **Demand is emerging across cybersecurity, aerospace, defense technology, and software-driven firms, reinforcing the breadth of expansion occurring across Northern Virginia's defense innovation ecosystem.**

High-Quality Space Is Becoming More Competitive

CoStar data also indicates that high-quality office inventory is tightening in several Northern Virginia submarkets as companies compete for locations that support operational growth and access to talent.

Many of these firms are operating with hybrid characteristics. **They require infrastructure and security considerations associated with government work while also prioritizing flexibility, collaboration, and access to technical talent.**

As a result, office demand is becoming another signal supporting the broader evolution of Northern Virginia's defense innovation ecosystem.

SCALE

272,000+ SF

Recent defense and defense technology leasing activity identified by Cresa Research across Northern Virginia

GROWTH

~200 New Jobs

Expected from Blue Sky Innovators' expansion in Reston

MARKET IMPACT

57%

of Q2 2026 leasing activity by square footage came from defense and government contractors, according to CoStar.

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What This Means Going Forward

The long-term implications of this shift are still developing, but several trends are beginning to emerge clearly.

Northern Virginia's Role May Continue to Expand

Northern Virginia appears increasingly positioned to remain a central hub for defense innovation and growth. The concentration of agencies, contractors, infrastructure, talent, and investment creates conditions that may continue attracting both established contractors and emerging defense technology firms.

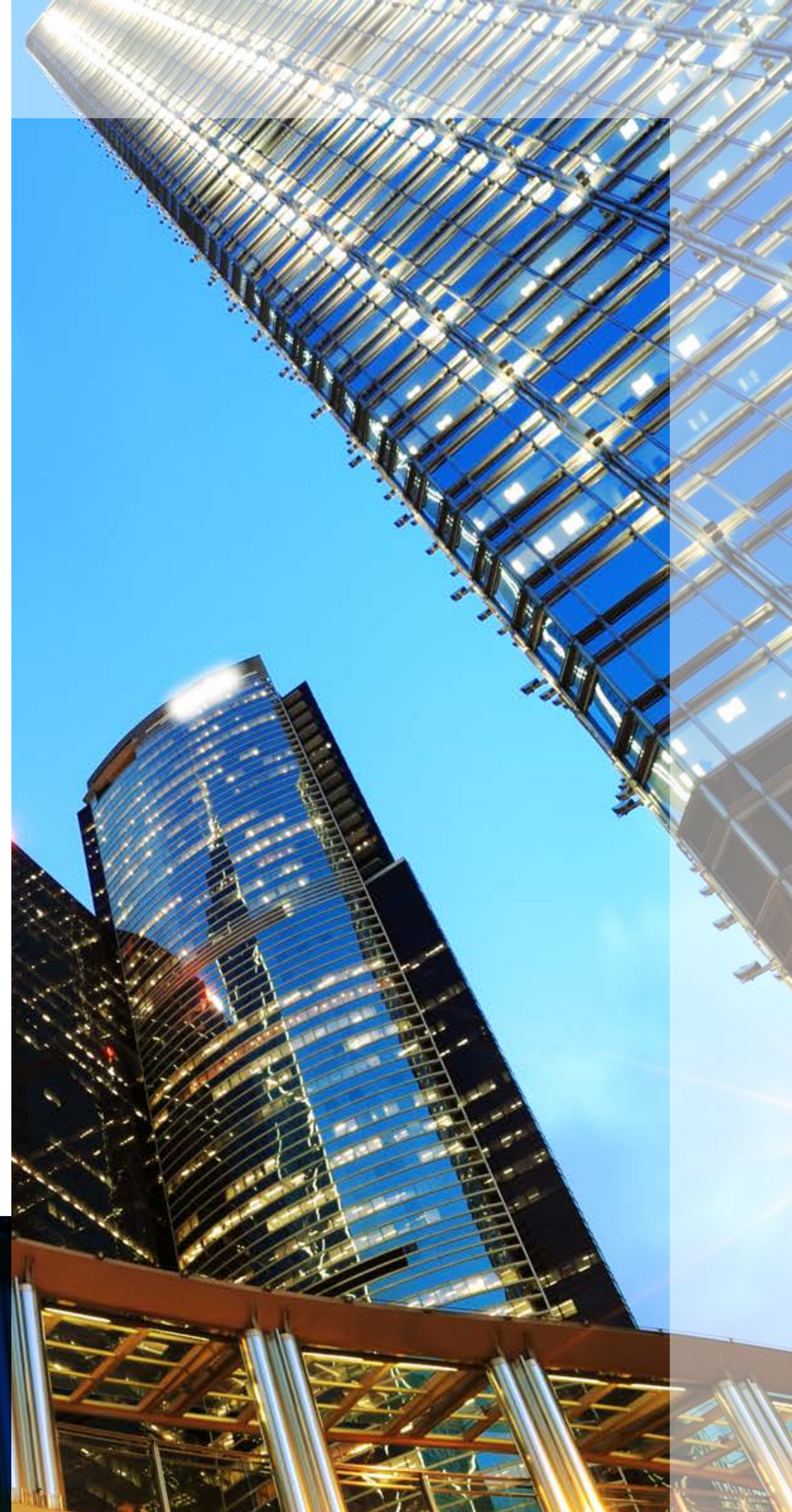
At the same time, the overlap between technology and defense sectors is likely to deepen further as AI capabilities continue advancing and national security priorities evolve.

Implications for the Office Market

For the office market, continued growth among defense and defense technology firms could have implications beyond demand for high-quality space. As companies expand their footprints and new entrants enter the market, vacancy rates may continue to tighten across key Northern Virginia submarkets, potentially shifting market dynamics toward a more landlord-favored environment than the region has experienced in recent years.

Looking Ahead

These signals increasingly support the view that Northern Virginia is evolving beyond a traditional contractor market and into a broader innovation ecosystem centered on defense technology.



KEY TAKEAWAYS

- AI and software-driven technologies are reshaping the defense sector
- Startups and mid-sized firms are playing a larger role alongside traditional contractors
- Venture capital investment in defense technology is accelerating
- Northern Virginia is emerging as a concentrated hub for defense innovation
- Office demand reflects broader growth across defense and defense technology sectors
- Competition for high-quality space may continue increasing as the ecosystem expands

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