

Northern Virginia Office Market

Northern Virginia Market Continues to Feel Effects of COVID-19 but End is in Sight

The effects of the pandemic on the Northern Virginia office market accelerated during the fourth quarter, as -868,672 square feet was absorbed, bringing the 2020 annual absorption total to -1.2 million square feet. Gross leasing was still below pre-pandemic levels in the fourth quarter, and many of the leases executed during the quarter were renewals. The most significant lease of the quarter was by Volkswagen Group of America, which leased 196,000 square feet at Boston Properties' new Reston Gateway development. Overall vacancy ended the fourth quarter at 19.2%, an increase of 50 basis points from the prior quarter and 100 basis points from one year ago. The average overall asking rent increased 1.1% from one year ago to \$33.79/SF, in part due to new supply that delivered earlier this year. However, effective rents remain under downward pressure as concessions are elevated.

At the close of 2020, 2.7 million square feet of office space was under construction in Northern Virginia, excluding renovations and owner-occupied buildings. The overall pre-lease rate of the buildings under construction was 82.3%. Tenants that have preleased large blocks of space recently include Volkswagen (196,000 square feet), Fannie Mae (850,000 square feet), and the Transportation Security Administration (625,000 square feet). Reston leads the way in new development, with 1.4 million square feet of office space under construction.

There were no ground breakings or deliveries in the fourth quarter of 2020. In terms of ground breakings, developers are trying to decide how to proceed and are pausing until it is clearer what the need for space will be post-pandemic. Despite no deliveries in the fourth quarter there was a total of 803,245 square feet of deliveries in 2020. A combination of fewer deliveries and increased demand caused vacancy rates to decline throughout 2019 but vacancy has ticked up since one year ago as the impacts of the COVID-19 pandemic continue to take a toll on the region. Weakened demand likely will continue into 2021, although the Northern Virginia office market remains fairly well positioned compared to its regional rivals and the nation overall, and there is an end to the pandemic in sight with the recent approval of the Pfizer and Moderna vaccines.

Class A Market Softens in Fourth Quarter

Northern Virginia's Class A properties absorbed -612,239 square feet in fourth-quarter 2020, bringing the 2020 annual absorption total for Class A to -624,691 square feet. A notable theme across the board for Class A space in 2020 was consolidation of government contractors. Companies such as BAE, Leidos and Boeing consolidated office space across the region in 2020. Northern Virginia's Class A vacancy rate ended 2020 at 18.9%, up 120 basis points from a year ago. Class A asking rents increased 1.1% over the year. With 2.7 million square feet under construction, the Class A inventory in Northern Virginia will continue to grow over the next two years.

Current Conditions

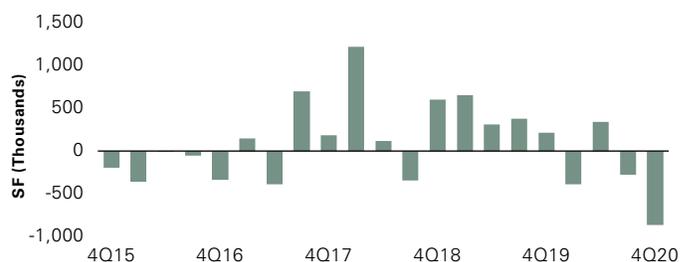
- Market activity slowed during the fourth quarter as more sublease space was returned to the market.
- The largest lease of the quarter was signed by Volkswagen Group of America, Inc.: a new lease for 196,000 square feet in the new Reston Gateway development in Reston.
- No buildings delivered or broke ground in the fourth quarter of 2020 but four buildings delivered in 2020 totaling 803,245 square feet.

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	164.9 M	164.9 M	164.5 M	↑
Vacancy Rate	19.2%	18.7%	18.2%	↑
Quarterly Net Absorption (SF)	-868,672	-278,841	217,589	↑
Average Asking Rent/SF	\$33.79	\$33.81	\$33.43	→
Under Construction (SF)	2.7 M	2.7 M	2.8 M	↓
Deliveries (SF)	0	0	0	↑

After a Challenging 2020, Northern Virginia is Well Positioned for the Future

The global pandemic of 2020 has led to pressure on the economy and commercial real estate market. In Northern Virginia, tenant movement remained limited during the fourth quarter due to work-from-home programs and safety concerns continuing to affect the office market. Most activity centered on renewals and extensions during the fourth quarter, but there also was a modest increase in new leases signed. Sublease space rose during the quarter but plateaued in December, perhaps a positive sign reflecting the approval of two coronavirus vaccines. Although the vaccines may not be widely distributed until the second quarter of 2021, there is an end to the pandemic in sight. Even though 2020 was filled with challenges, there are some bright spots for Northern Virginia asset owners and tenants, including an influx of government contracting dollars related to COVID-19, government agencies continuing to sign leases in the area, and a growing technology sector.

Gross leasing continued to be below pre-pandemic levels during the fourth quarter, which was to be expected, although the share of leases that were renewals or extensions declined from 65.0% to 46.2% of the leases executed. Even though the increase in new leases being signed is positive for asset owners, some tenants will likely decide to keep a portion of their employees remote to lower occupancy costs. This may make sense for some tenants during a time of great economic uncertainty and delayed stimulus from the government; however, employees are less likely to be engaged and loyal in remote office environments and this can make employee retention difficult. This choice represents a delicate balance for employers. Some tenants have chosen to test the market over the last three quarters and have made space available for sublease; Northern Virginia's sublease availability rate was 2.3% in December but has plateaued since rising from 1.3% over the past several months.

The Washington region has benefited during downturns from the presence of the federal government and this downturn has been no different. The government continued to sign leases with Department of Defense (DOD), General Services Administration (GSA) and High Intensity Drug Trafficking Area Program (HIDTA) being among the largest leases of the fourth quarter. There was also an uptick in government contractors who signed new leases such as Leidos, General Dynamics, CACI and Thales.

Government contractors have also benefited in the Northern Virginia region from receiving a large amount of federal funds to help with the government's COVID-19 response. Through December 14th, the Commonwealth of Virginia had been awarded approximately \$3.4 billion in federal funds directly related to COVID-19 and 72.6% of those funds were awarded to Northern Virginia firms. Funds awarded to Virginia were third behind only Maryland and Georgia. Fairfax County alone has been awarded \$1.9 billion in COVID-19 contracts. These contracts will continue to buoy the Northern Virginia economy into 2021 as the vaccines roll out and the national economy recovers.

Looking forward, Northern Virginia has a robust but manageable pipeline of office product with 2.7 million square feet under construction that is 82.3% preleased. Volkswagen Group of America signed a new prelease in the fourth quarter at Reston Gateway and will be joining Fannie Mae there. This development is set to deliver in 2022 and is at the new Reston Town Center Metrorail station. 1902 Reston Metro Plaza is slated to complete construction in late 2021 and is preleased to ICF International. 1906 Reston Metro Plaza completed construction earlier this year and Neustar will be moving into the building in 2021. A majority of the new development in Northern Virginia is centered around the Silver Line. The Silver Line extension is now slated to open in mid-2021, bringing greater accessibility to suburban submarkets and the Dulles Airport area.

In 2020, Northern Virginia saw major technology companies take large blocks of space and firm up their commitment to the region. Microsoft signed a 400,000-square-foot lease in the second quarter and then renewed and expanded 184,000 square feet in the fourth quarter. Facebook took occupancy of its new 75,000-square-foot space in Reston and Google built out its space at 1900 Reston Metro Plaza. Amazon continues filling out its second headquarters on schedule and has begun pre-construction on its first two buildings in National Landing, totaling 2.1 million square feet that is set to deliver in 2023. Amazon has not indicated that its plans at National Landing will change due to the pandemic. Of note, Amazon hit the 1,000-employee mark at National Landing in late June and is on track to meet its 25,000 hires over the next decade. Although Amazon did not lease any new space in the region during the second half of the year, the company committed to investing \$1.4 billion and leasing another 900,000 square feet of office space across the country, which bodes well for its commitment to getting employees back in the office when it is safe to return.

Notable 4Q 2020 Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Volkswagen Group of America, Inc.	Sunset Hills Road—Reston Gateway	Reston	Direct Lease	196,000
Microsoft	12012 Sunset Hills Road	Reston	Lease Renewal/Expansion	184,394
GSA—Department of Defense (DOD)	8111 Gatehouse Road	Merrifield	Direct Lease	70,056
Hanover Research	4401 Wilson Boulevard	Ballston	Lease Renewal	50,148
Computer Systems Center, Inc.	6225 Brandon Avenue	Springfield	Lease Expansion	34,826

Notable Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
3150 Fairview Park Drive	Merrifield	\$90,000,000	\$356	252,613
3170 & 3180 Fairview Park Drive	Merrifield	\$87,500,000	\$313	279,701

Investment Sales Market Sees Beginning of Recovery

Northern Virginia's investment sales activity picked back up in the fourth quarter of 2020, with four transactions over \$20 million. The largest sale of the quarter was 3150 Fairview Park in Merrifield. The 252,613-square-foot building was purchased by Apollo Global Real Estate from Clarion Partners for \$90.0 million, or \$356 per square foot. The second-largest transaction of the fourth quarter was the sale of 3170 & 3180 Fairview Park Drive in Merrifield. The two buildings total 279,701 square feet and were purchased by a joint venture between Estein USA and Vanderbilt Office Properties for \$87.5 million, or \$313 per square foot. The sales momentum seen in 2018 and 2019 was slowed by COVID-19 but has begun to see a rebound with larger transactions closing later in the year including two transactions in September over \$300 million. While fundamentals may remain challenged into 2021, it is likely activity increases in 2021 as there is an end in sight to the COVID-19 pandemic and Northern Virginia boasts a strong mix of industries that appeals to investors.

Northern Virginia Outlook

Northern Virginia's office market demand continued to soften in the fourth quarter of 2020. Tenant movement and gross leasing activity declined significantly in the latter half of the year as the pandemic continued to impact the office market and the economy as a whole. Tenant movement is expected to pick back up in 2021 now that companies have a better idea of when it will be safe to return employees to the office. Northern Virginia is already better positioned than many rivals because of its strengths in tech and contracting and this will likely lead to a quicker recovery in the upcoming year.

Northern Virginia's overall vacancy rate ticked up to 19.2%. The vacancy rate likely will continue to rise during the first half of 2021 but is likely to stabilize after the roll out of the vaccine to the general public. The vacancy rate is likely to settle at 20.2% by December 2022 but may exceed that level in the interim—due primarily to sublease space being placed on the market—before returning to that rate. The market's average asking rental rate rose 1.1% over the

past year, although concessions are elevated and effective rents are under downward pressure. Tenants will maintain considerable leverage in 2021 but that leverage is likely to wane in the second half of the year.

Northern Virginia's development pipeline at the close of 2020 remains a robust 2.7 million square feet, with a pre-leasing rate of 82.3%. However, at 1.6% of the existing inventory, the construction pipeline is manageable. After a slow year of deliveries in 2019, deliveries in Northern Virginia ticked up during the first half of 2020, but saw no deliveries in the second half.

Most of Northern Virginia's office market fundamentals softened in the fourth quarter of 2020 which was expected given the recent uptick in COVID-19 cases and the delayed relief for individuals and businesses since the spring. Although asking rents are modestly higher than a year ago, gross leasing declined during the second half of the year and absorption was negative for the second consecutive quarter. It is certain that job losses in the private sector, especially in the service and retail industries, will continue to have an impact on Northern Virginia's economy into 2021; however, the Northern Virginia office market has been bolstered by its strength in technology and by its government contractors being well-positioned to capture COVID-related federal spending.

Northern Virginia's diversification over the past decade—blending government contracting with direct federal leasing, technology sector growth, investments in higher education (especially the digital sciences), and medicine—have set it up well for a quicker-than-average office market recovery in 2021 and beyond. In addition, a lack of overbuilding and a high prelease rate compared to prior cycles puts the market in a better position to rebound faster.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Mid-Atlantic Market Reports](#) page at nmrk.com.

Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2017 Absorption (SF)	2018 Absorption (SF)	2019 Absorption (SF)	4Q 2020 Absorption (SF)	YTD 2020 Absorption (SF)
Northern Virginia	164,871,643	18.2%	19.2%	648,500	1,598,928	1,565,182	-868,672	-1,198,441
Class A	97,840,800	17.7%	18.9%	1,007,668	1,274,049	758,062	-612,239	-624,691
Class B	46,145,584	20.0%	20.9%	240,829	347,694	636,737	-216,640	-341,230
Class C	20,885,259	16.6%	16.8%	-599,997	-22,815	170,383	-39,793	-232,520

Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2020 Deliveries (SF)	YTD 2020 Deliveries (SF)	Under Construction (SF)
Northern Virginia	164,871,643	\$36.26	\$31.09	\$33.79	0	803,245	2,686,023
Class A	97,840,800	\$36.26	NA	\$36.26	0	803,245	2,686,023
Class B	46,145,584	NA	\$31.09	\$31.09	0	0	0
Class C	20,885,259	NA	NA	\$29.46	0	0	0

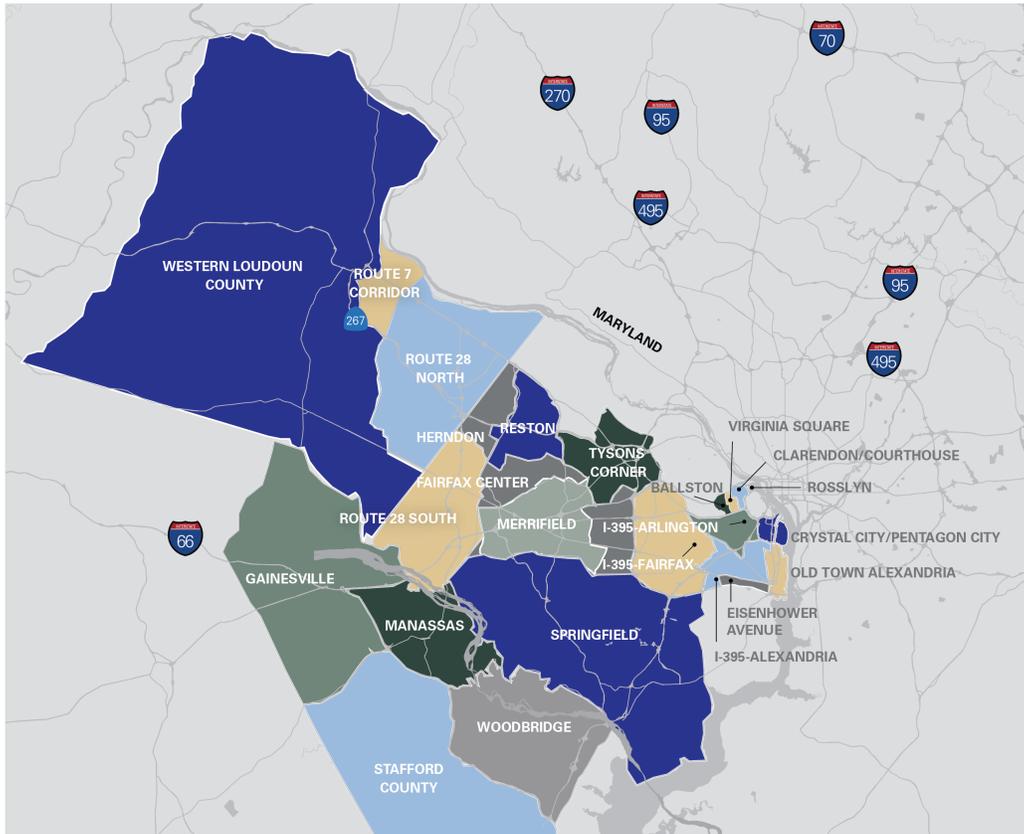
Note: Asking rents are quoted on a full service basis.

Submarket Statistics—All Classes								
	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2017 Absorption (SF)	2018 Absorption (SF)	2019 Absorption (SF)	4Q 2020 Absorption (SF)	YTD 2020 Absorption (SF)
Northern Virginia	164,871,643	18.2%	19.2%	648,500	1,598,928	1,565,182	-868,672	-1,198,441
Ballston	7,645,994	22.5%	24.3%	-583,552	107,710	191,521	-40,132	60,741
Clarendon/Courthouse	4,671,737	25.1%	26.4%	208,342	-29,776	-12,636	-53,335	-216,556
Crystal City/Pentagon City	12,508,435	14.7%	16.3%	121,532	379,957	282,070	-28,906	-294,188
Eisenhower Avenue	1,313,328	51.4%	51.4%	46,711	-2,288	10,159	-10,796	-3,135
Fairfax Center	10,381,282	22.4%	24.1%	45,496	10,068	114,108	-30,303	-301,122
Gainesville	247,772	8.6%	8.6%	0	0	-9,694	0	7,886
Herndon	11,634,113	16.9%	18.0%	-141,045	87,664	287,490	-182,119	-1,256
I-395 Corridor – Alexandria	2,471,576	23.9%	23.9%	-93,879	-26,084	25,881	-4,635	32,676
I-395 Corridor – Arlington	1,595,158	6.0%	6.0%	141,811	16,180	26,795	1,340	7,576
I-395 Corridor – Fairfax	4,810,633	32.3%	32.4%	18,004	-47,133	166,877	-8,583	18,234
Manassas	2,825,909	7.6%	7.8%	66,291	84,302	1,852	-12,950	12,737
Merrifield	8,339,672	18.1%	18.7%	-19,081	-24,505	-15,402	850	1,613
Old Town Alexandria	11,296,640	12.1%	13.4%	89,952	-61,426	26,115	-101,570	-156,667
Reston	17,207,196	16.4%	17.2%	342,025	38,034	-208,568	-100,491	-191,050
Rosslyn	9,304,192	20.0%	21.1%	-24,977	653,574	235,198	-11,045	143,841
Route 28 North	5,092,684	14.3%	15.1%	-5,445	89,114	-88,244	4,033	13,826
Route 28 South	11,366,708	16.5%	17.0%	139,591	207,303	105,044	-30,236	-36,597
Route 7 Corridor	5,136,314	13.0%	13.2%	201,399	111,620	12,818	-7,900	-24,368
Springfield	4,548,053	23.2%	23.2%	-3,002	-28,464	67,941	-24,820	-41,201
Stafford County	886,184	35.3%	35.6%	1,499	10,780	2,331	-4,414	-33,147
Tysons	28,468,210	18.6%	19.9%	120,027	40,419	482,664	-226,372	-177,976
Virginia Square	1,030,321	19.4%	19.6%	20,832	-84,672	-161,903	-5,038	16,485
Western Loudoun County	795,188	2.9%	2.9%	-9,977	42,285	-3,744	-2,494	-13,650
Woodbridge	1,294,344	11.5%	12.1%	-34,054	24,266	26,509	11,244	-23,143

Submarket Statistics—All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	4Q 2020 Deliveries (SF)	YTD 2020 Deliveries (SF)	Under Construction (SF)
Northern Virginia	164,871,643	\$36.26	\$31.09	\$33.79	0	803,245	2,686,023
Ballston	7,645,994	\$45.57	\$40.45	\$42.78	0	204,788	0
Clarendon/Courthouse	4,671,737	\$43.34	\$41.02	\$43.05	0	0	0
Crystal City/Pentagon City	12,508,435	\$41.48	\$37.34	\$39.54	0	0	0
Eisenhower Avenue	1,313,328	\$31.39	\$23.00	\$29.75	0	0	0
Fairfax Center	10,381,282	\$29.73	\$28.04	\$27.85	0	0	0
Gainesville	247,772	\$31.07	\$22.00	\$25.83	0	0	0
Herndon	11,634,113	\$35.34	\$24.17	\$32.52	0	0	0
I-395 Corridor – Alexandria	2,471,576	\$30.43	\$27.94	\$29.22	0	0	0
I-395 Corridor – Arlington	1,595,158	\$30.63	\$20.00	\$26.95	0	0	0
I-395 Corridor – Fairfax	4,810,633	\$32.91	\$29.17	\$29.27	0	0	0
Manassas	2,825,909	\$22.96	\$20.95	\$21.39	0	0	0
Merrifield	8,339,672	\$32.68	\$31.84	\$30.84	0	0	0
Old Town Alexandria	11,296,640	\$40.06	\$31.73	\$36.56	0	0	0
Reston	17,207,196	\$36.83	\$26.75	\$33.28	0	473,457	1,360,000
Rosslyn	9,304,192	\$51.79	\$42.38	\$44.38	0	0	0
Route 28 North	5,092,684	\$28.17	\$23.87	\$25.40	0	0	0
Route 28 South	11,366,708	\$28.88	\$23.10	\$27.92	0	125,000	350,000
Route 7 Corridor	5,136,314	\$29.00	\$21.58	\$27.67	0	0	0
Springfield	4,548,053	\$37.58	\$25.36	\$29.28	0	0	625,000
Stafford County	886,184	\$25.80	\$24.50	\$25.75	0	0	0
Tysons	28,468,210	\$39.55	\$33.13	\$35.64	0	0	351,023
Virginia Square	1,030,321	\$42.00	NA	\$41.72	0	0	0
Western Loudoun County	795,188	\$30.93	\$22.46	\$26.92	0	0	0
Woodbridge	1,294,344	\$25.80	\$23.26	\$25.07	0	0	0

Northern Virginia Office Submarkets



Methodology

Market statistics are calculated from a base building inventory of office properties 20,000 SF and larger that are deemed to be competitive in the Washington Metro Area office market. Properties that are more than 75% owner-occupied and federally owned buildings are generally excluded from inventory.

Glossary

Asking Rental Rate: The dollar amount asked by landlords for direct available space (not sublease), expressed in dollars per square foot per year. Average asking rents are calculated on a weighted average basis, weighted by the amount of available space. Asking rents are quoted on a full service basis, meaning all costs of operation are paid by the landlord up to a base year or expense stop.

Class A: The most prestigious buildings competing for premier office users with rents above average for the area. Class A buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

Class B: Buildings competing for a wide range of users with rents in the average range for the area. Class B building finishes are fair to good for the area and systems are adequate, but the building cannot compete with Class A at the same price.

Class C: Buildings competing for tenants requiring functional space at rents below the area average.

Deliveries: Projects that have completed construction and received a certificate of occupancy.

Net Absorption: The net change in physically occupied space from one quarter to the next. **Year-to-Date (YTD) Net Absorption** is the net change in physically occupied space from the start of the calendar year to the current quarter. Net absorption is counted upon physical occupancy, not upon execution of a lease.

Sublease: Sublease space is offered and marketed as available by the current tenant, rather than directly from the owner.

Under Construction: Properties undergoing ground-up construction in which work has begun on the foundation. Properties that have only undergone grading or other site work are not included as under construction.

Under Renovation: Properties undergoing significant renovations that require all tenants to be out of the building. These properties are removed from inventory during the renovation period and delivered back to inventory upon completion of the renovations. These properties are not included in under construction totals.

Vacancy Rate: The amount of space that is physically vacant, expressed as a percentage of inventory. (Space that is being marketed as available for lease but is largely occupied is not included in the vacancy rate.) The **Overall Vacancy Rate** includes all physically vacant space, both direct and sublease, while the **Direct Vacancy Rate** includes only direct space.

For more information:

Tysons

1410 Spring Hill Road
Suite 600
McLean, VA 22102
t 703-448-2000

Alexander (Sandy) Paul, CRE, LAI

Senior Managing Director
t 202-312-5783
apaul@ngkf.com

Matt Kruczlnicki

Associate Director
t 202-312-8383
matthew.kruczlnicki@ngkf.com

Jordan Schott

Senior Research Analyst
t 202-664-5902
jordan.schott@ngkf.com

Kevin Sweeney

Senior Research Analyst
t 202-312-5763
kevin.sweeney@ngkf.com

nrmk.com

ALABAMA

Birmingham

ARIZONA

Phoenix

ARKANSAS

Fayetteville
Little Rock

CALIFORNIA

El Segundo
Irvine
Los Angeles
Newport Beach
Pasadena
Sacramento
San Francisco
San Jose
San Mateo
Santa Rosa

COLORADO

Denver

CONNECTICUT

Stamford

DELAWARE

Wilmington

DISTRICT OF COLUMBIA

FLORIDA

Boca Raton
Jupiter
Miami
Palm Beach
Tampa

GEORGIA

Atlanta

ILLINOIS

Chicago

INDIANA

Indianapolis

KENTUCKY

Louisville

LOUISIANA

New Orleans

MARYLAND

Baltimore
Salisbury

MASSACHUSETTS

Boston

MICHIGAN

Detroit

MINNESOTA

Minneapolis

MISSOURI

St. Louis

NEVADA

Las Vegas
Reno

NEW JERSEY

Rutherford
East Brunswick
Morristown

NEW YORK

Buffalo/Amherst
New York

NORTH CAROLINA

Charlotte

OHIO

Cincinnati
Cleveland
Columbus

OKLAHOMA

Oklahoma City

OREGON

Portland/Lake
Oswego

PENNSYLVANIA

Allentown
Philadelphia
Pittsburgh

TEXAS

Austin
Dallas
Houston

UTAH

Salt Lake City

VIRGINIA

Tysons Corner

WASHINGTON

Seattle

WISCONSIN

Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.