

# NORTHERN VIRGINIA OFFICE MARKET

## NORTHERN VIRGINIA MARKET STURDY IN SECOND QUARTER DESPITE COVID-19 PANDEMIC

Despite the COVID-19 pandemic, demand for office space in Northern Virginia was steady in the second quarter of 2020, as 306,804 square feet were absorbed. Leidos took possession of its new 287,000-square-foot headquarters at 1750 Presidents Street in the second quarter which helped buoy absorption. Gross leasing during this period was strong despite the accelerating coronavirus pandemic. The most significant deal of the quarter was by Microsoft, which announced it will be occupying 396,740 square feet at 11955 Freedom Drive in Reston. Overall vacancy ended the first quarter at 18.6%, an increase of 10 basis points from the prior quarter and from one year ago. Average overall asking rents increased 1.6% from one year ago to \$33.63/SF.

Office space under construction in Northern Virginia, excluding renovations and owner-occupied buildings, totaled 2.2 million square feet at the end of the second quarter. The overall pre-lease rate of the buildings under construction was 71.9%. Tenants that have preleased large blocks of space include ICF International (207,000 square feet), Fannie Mae (850,000 square feet), and the Transportation Security Administration (625,000 square feet). Reston continued to lead the way in new development, with 1.3 million square feet of office space under construction.

Two major projects delivered in the second quarter of 2020. 1750 Presidents Street, a 287,000-square-foot building, delivered 100.0% preleased to Leidos and will serve as the firm's new headquarters. 1906 Reston Metro Plaza, a 186,457-square-foot building, also delivered in the second quarter. The building is 53.6% preleased to Neustar. A combination of fewer deliveries and increased demand caused vacancy rates to decline throughout 2019. Vacancy ticked up slightly in the first half of 2020, and the impacts of the COVID-19 pandemic on office demand through the remainder of 2020 are uncertain. Construction continued almost unabated during the second quarter in Northern Virginia, with slight delays due to increased safety precautions and social distancing guidelines.

### CLASS A DEMAND STRONGER IN SECOND QUARTER

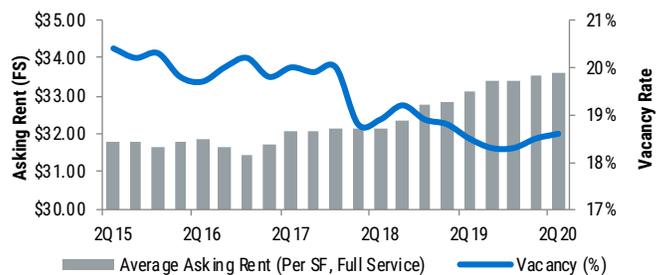
Northern Virginia's Class A properties absorbed 388,979 square feet in second-quarter 2020 as the result of a few large move-ins to new construction. It is clear that even during the COVID-19 pandemic, quality office space in Northern Virginia remains desirable, as tenants are still seeking well-located and richly amenitized accommodations within the region for their long-term needs. Notable first-quarter moves into Class A office space included Leidos moving into 287,000 square feet at 1750 Presidents Street in the Reston submarket and AvalonBay moving into 73,242 square feet at 4040 Wilson Boulevard in the Ballston submarket. Northern Virginia's Class A vacancy rate ended second-quarter 2020 at 18.2%, up 60 basis points from a year ago. Class A asking rents increased 1.7% over the year. With 2.2 million square feet under construction, the Class A inventory in Northern Virginia will continue to grow over the next three years.

### CURRENT CONDITIONS

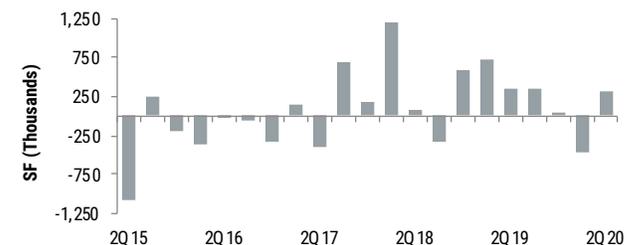
- Northern Virginia's construction pipeline remains robust at 2.2 million square feet.
- The largest lease of the quarter was signed by Microsoft: a new lease for 396,740 square feet at 11955 Freedom Drive in Reston.
- Two Reston buildings completed construction in the second quarter of 2020, totaling 473,457 square feet. Groundbreakings without substantial preleasing are likely to ease in the year ahead given overall economic conditions.

### 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	164.4 M	164.2 M	↑
Vacancy Rate	18.6%	18.5%	18.5%	↓
Quarterly Net Absorption (SF)	306,804	447,422	342,079	↑
Average Asking Rent (Per SF, Full Service)	\$33.63	\$33.53	\$33.10	↑
Under Construction (SF)	2.2 M	2.7 M	2.8 M	↓
Deliveries (SF)	473,457	329,788	0	↑

## NORTHERN VIRGINIA'S RESILIENCY THROUGH A GLOBAL PANDEMIC

Although tenant movement during the second quarter was limited due to COVID-19 restrictions, leasing activity was strong and Northern Virginia was awarded a large share of federal contract dollars related to COVID-19.

Through June 17, the Commonwealth of Virginia has been awarded approximately \$1.5 billion in federal funds directly related to COVID-19 and 70.9% of those funds were awarded to Northern Virginia. Funds awarded to Virginia were second only to Georgia, the home of the Centers for Disease Control (CDC). Fairfax County alone has been awarded \$852.2 million in COVID-19 contracts. Prince William County has been awarded the second most contract volume in Northern Virginia at \$119.8 million.

In Northern Virginia, the Small Business Administration (SBA) was awarded the most contract volume, totaling \$599.0 million, followed by the Department of Veterans Affairs (VA) at \$306.8 million and Health and Human Services (HHS) at \$92.9 million. A majority of Northern Virginia's federal contracts related to COVID-19 are primarily in office-using and high-wage categories like IT support and medical R&D. Herndon-based RER Solutions has been the biggest winner of COVID-19 government contracts in the area, totaling \$500 million. These contracts were awarded by the Small Business Administration to assist with processing loans and making recommendations to the agency's loan program. Colossal Contracting, LLC has been awarded a total of \$72.2 million in COVID-19-related contracts for IT assistance at the Department of Veterans Affairs. Federal Government Experts, LLC has been awarded \$71.0 million to assist with streamlining the federal government's acquisition process for personal protective equipment (PPE).

Although Northern Virginia has been remarkably resilient and is better positioned than most other jurisdictions around the country, it has not come out unscathed as several companies located in the region have announced layoffs or bankruptcy. Tysons was hit especially hard as several companies in the submarket had to lay off portions of their workforce or file for bankruptcy. Hilton Hotels announced it was laying off 22% of its corporate staff in June. In May, Cvent announced that it was furloughing or laying off 10% of its workforce and Intelsat filed for bankruptcy protection. OneWeb also filed for bankruptcy in March when additional funding fell through due to COVID-19.

While it is certain that job losses in the private sector—especially in the service and retail industry—will continue to have an impact on Northern Virginia, the economic blow to Northern Virginia is likely to be less severe than in other areas around the country. The boost seen from COVID-19-related contracts only adds to the already robust government contracting sector in Northern Virginia. As one of Northern Virginia's core sectors, government contracting remains strong and there has been no indication that it will change course in the future. Government contractors continued to buoy leasing activity during the second quarter as SAIC, Accenture Federal Services, Raytheon, CGI Technologies, Northrop Grumman and Boeing all signed leases.

Technology has revealed itself to be one the resilient sectors during the COVID-19 pandemic. It was one of the only sectors that continued hiring throughout the pandemic as many people shifted to working remotely and as the country increased its reliance on technology and e-commerce. Microsoft signed a 396,740-square-foot lease at Reston Town Center in the second quarter, which will be net new growth for the company focusing on software development. It will be backfilling the space Leidos vacated this quarter to move into its new headquarters. Microsoft will add 1,500 new jobs and plans to move in during the summer of 2021. The company will be keeping its existing office space at 12012 Sunset Hills Road in Reston. Walmart Technologies also signed a new lease for 162,276 square feet.

This additional growth in the technology sector follows growth in recent years by Amazon and its sister company Amazon Web Services, plus Google and Facebook, which also now occupy or will occupy space in Reston. Amazon is moving full steam ahead on its development projects in National Landing, as the first 2.1 million square feet of HQ2 space is now under construction. JBG Smith is continuing with its redevelopment plans of the area including office, multifamily and retail buildings despite the economic slowdown. The crescent that runs through Alexandria, National Landing, the Rosslyn-Ballston Corridor, Tysons, and Reston is particularly well positioned to benefit from future growth in the technology sector.

### NOTABLE 2Q 2020 LEASE TRANSACTIONS

Tenant	Building	Submarket	Type	Square Feet
Microsoft	11955 Freedom Drive	Reston	Direct Lease	396,740
City of Alexandria	4850 Mark Center Drive	Alexandria – I-395 Corridor	Direct Lease	215,806
Walmart Technologies	2245 Monroe Street	Reston	Direct Lease	162,276
SAIC	14672 Lee Road	Route 28 South	Renewal	150,000
Fairfax County	10777 Main Street	Fairfax Center	Renewal	61,563

### NOTABLE 2Q 2020 SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
1530 Wilson Boulevard	Rosslyn	\$71,400,000	\$398	179,622
John Marshall II	Tysons Corner	\$57,000,000	\$241	236,200

## INVESTMENT SLOWS IN THE SECOND QUARTER

Northern Virginia's investment sales activity slowed in the second quarter of 2020, as only three major transactions closed totaling approximately \$175.8 million. The quarter's largest transaction was the sale of 1530 Wilson Boulevard in Rosslyn. The 179,622-square-foot building was purchased by Velocis from Gateway Monterey Inc. for \$71.4 million, or \$398 per square foot. The second-largest transaction of the second quarter was the sale of John Marshall II at 8283 Greensboro Drive. The 236,200-square-foot building was purchased by the Meridian Group from WashREIT for \$57.0 million or \$241 per square foot. The building sold at a \$6 million discount from the agreed-upon price prior to COVID-19. The sales momentum seen in 2018 and 2019 was slowed by COVID-19 and most properties were pulled from the sales market. It is still uncertain what the rest of 2020 will hold amid the global pandemic. Although activity may remain slow in the near term, investors likely will continue to seek the stable performance record of the Washington metro area.

## NORTHERN VIRGINIA OUTLOOK

Northern Virginia's office market demand ticked up in the second quarter of 2020. The quarter's positive absorption was buoyed by new construction move-ins at 4040 Wilson Boulevard in Ballston and 1750 Presidents Street in Reston. Tenant movement declined significantly in the second quarter as expected due to the pandemic. Tenant movement is expected to be slow throughout the third quarter as companies weigh when it is safe to bring employees back into the office.

As a result of a building delivering vacant during the second quarter, Northern Virginia's overall vacancy rate ticked up to 18.6%. The vacancy rate may rise during the balance of 2020, with the market's decision-making slowed, but the second quarter did not signal any significant decline in demand. The market's average asking rental rate rose 1.6% over the past year, indicating that asset owners still believe the market will continue to tighten in the intermediate term; the overall outlook remains favorable for asset owners in part because Northern Virginia's economy is supported by the technology sector, which is thriving.

Northern Virginia's development pipeline ticked down in the second quarter of 2020, but remains a robust 2.2 million square feet, with a pre-leasing rate of 71.9%. After a slow year of deliveries in 2019, deliveries in Northern Virginia ticked up during the first half of 2020, but it is possible deliveries scheduled for the second half of the year could be delayed into early 2021. Class A space located in transit-oriented submarkets continues to see the most demand, although after the COVID-19 pandemic, we could see tenants rethinking that strategy and looking to move to more suburban and less-dense office environments.

Most of Northern Virginia's office market fundamentals remained sturdy in the second quarter of 2020. Rental rates continued to climb, gross leasing remained strong even in the face of a global pandemic, and absorption was positive. There was a slight uptick in vacancy due to deliveries and it was a slow quarter for investment sales. The duration of the outbreak and the degree of the resulting economic impact are still unknown at this point. It is certain that job losses in the private sector, especially in the service and retail industry, will continue to have an impact on Northern Virginia; however, the Northern Virginia market has seen growth in response to the pandemic because of its tech-orientation. The Commonwealth of Virginia has received over \$1.5 billion in federal contracts related to COVID-19 as of June 17, second only to Georgia, the home of the CDC. This federal contracting growth will lessen the impact on the local economy and office market. Northern Virginia's core sectors—government contracting and technology—will help insulate it against some of the worst impacts of a recession. Once conditions begin to return to normal, these sectors are likely to resume the growth they had pursued in Northern Virginia prior to the outbreak.

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

## MARKET STATISTICS BY CLASS

	Total Inventory (SF)	Direct Vacancy Rate	Overall Vacancy Rate	2017 Absorption (SF)	2018 Absorption (SF)	2019 Absorption (SF)	2Q 2020 Absorption (SF)	YTD 2020 Absorption (SF)
<b>Northern Virginia</b>	<b>164,907,568</b>	<b>17.8%</b>	<b>18.6%</b>	<b>648,500</b>	<b>1,576,738</b>	<b>1,471,135</b>	<b>306,804</b>	<b>-140,618</b>
Class A	97,876,725	17.2%	18.2%	1,007,668	1,274,049	646,474	388,979	129,181
Class B	46,145,584	19.7%	20.3%	240,829	325,504	654,278	-94,163	-82,541
Class C	20,885,259	16.4%	16.6%	-599,997	-22,815	170,383	11,988	-187,258

## MARKET STATISTICS BY CLASS

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2020 Deliveries (SF)	YTD 2020 Deliveries (SF)	Under Construction (SF)
<b>Northern Virginia</b>	<b>164,907,568</b>	<b>\$36.12</b>	<b>\$31.05</b>	<b>\$33.63</b>	<b>473,457</b>	<b>803,245</b>	<b>2,236,023</b>
Class A	97,876,725	\$36.12	NA	\$36.12	473,457	803,245	2,236,023
Class B	46,145,584	NA	\$31.05	\$31.05	0	0	0
Class C	20,885,259	NA	NA	\$29.42	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)	2Q 2020 Absorption (SF)	YTD 2020 Absorption (SF)
<b>Northern Virginia</b>	<b>164,907,568</b>	<b>17.8%</b>	<b>18.6%</b>	<b>648,500</b>	<b>1,576,738</b>	<b>1,471,135</b>	<b>306,804</b>	<b>-140,618</b>
Ballston	7,645,994	22.8%	23.7%	-583,552	107,710	135,574	102,386	157,641
Clarendon/Courthouse	4,550,562	20.3%	20.6%	208,342	-29,776	-12,636	4,932	-44,003
Crystal City/Pentagon City	12,508,435	15.0%	15.6%	121,532	379,957	309,739	14,626	-238,963
Eisenhower Avenue	1,313,328	51.1%	51.1%	46,711	-2,288	10,159	-782	22
Fairfax Center	10,381,282	23.1%	24.1%	45,496	10,068	82,983	-100,447	-272,629
Gainesville	247,772	8.6%	8.6%	0	0	-9,694	0	7,886
Herndon	11,634,113	17.4%	18.1%	-141,045	87,664	333,659	-37,030	-61,154
I-395 Corridor - Alexandria	2,471,576	23.8%	23.8%	-93,879	-26,084	25,881	8,720	36,047
I-395 Corridor - Arlington	1,595,158	4.4%	4.4%	141,811	16,180	32,052	9,218	27,324
I-395 Corridor - Fairfax	4,810,633	32.0%	32.2%	18,004	-47,133	166,877	3,963	30,012
Manassas	2,825,909	7.4%	7.4%	66,291	84,302	1,852	11,650	24,217
Merrifield	8,339,672	18.9%	19.4%	-19,081	-24,505	-15,402	3,096	-57,857
Old Town Alexandria	11,296,640	11.1%	12.1%	89,952	-61,426	5,619	36,115	13,709
Reston	17,364,296	14.8%	16.6%	342,025	15,844	-218,878	233,167	-20,743
Rosslyn	9,304,192	19.8%	20.5%	-24,977	653,574	235,198	-902	197,778
Route 28 North	5,092,684	14.2%	14.9%	-5,445	89,114	-88,244	2,837	21,999
Route 28 South	11,366,708	16.6%	17.2%	139,591	207,303	81,469	12,181	-30,899
Route 7 Corridor	5,136,314	11.4%	11.7%	201,399	111,620	32,418	47,211	34,615
Springfield	4,548,053	22.7%	22.9%	-3,002	-28,464	67,941	8,810	-25,385
Stafford County	886,184	32.9%	33.2%	1,499	10,780	2,331	-7,830	-12,002
Tysons	28,468,210	17.9%	19.0%	120,027	40,419	431,375	-19,812	118,981
Virginia Square	1,030,321	20.7%	20.7%	20,832	-84,672	-161,903	0	5,596
Western Loudoun County	795,188	3.4%	3.4%	-9,977	42,285	-3,744	-11,010	-17,455
Woodbridge	1,294,344	12.4%	13.0%	-34,054	24,266	26,509	-14,295	-35,355

## SUBMARKET STATISTICS – ALL CLASSES

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2020 Deliveries (SF)	YTD 2020 Deliveries (SF)	Under Construction (SF)
<b>Northern Virginia</b>	<b>164,907,568</b>	<b>\$36.12</b>	<b>\$31.05</b>	<b>\$33.63</b>	<b>473,457</b>	<b>803,245</b>	<b>2,236,023</b>
Ballston	7,645,994	\$45.52	\$41.40	\$43.22	0	204,788	0
Clarendon/Courthouse	4,550,562	\$43.06	\$38.92	\$42.65	0	0	0
Crystal City/Pentagon City	12,508,435	\$41.26	\$37.01	\$39.22	0	0	0
Eisenhower Avenue	1,313,328	\$31.45	\$27.00	\$30.28	0	0	0
Fairfax Center	10,381,282	\$29.46	\$28.29	\$27.66	0	0	0
Gainesville	247,772	\$30.18	\$22.00	\$25.90	0	0	0
Herndon	11,634,113	\$35.21	\$24.61	\$32.89	0	0	0
I-395 Corridor - Alexandria	2,471,576	\$30.50	\$27.90	\$28.96	0	0	0
I-395 Corridor - Arlington	1,595,158	\$27.65	\$20.00	\$25.95	0	0	0
I-395 Corridor - Fairfax	4,810,633	\$32.91	\$29.26	\$29.33	0	0	0
Manassas	2,825,909	\$22.85	\$20.51	\$21.00	0	0	0
Merrifield	8,339,672	\$32.80	\$32.46	\$31.06	0	0	0
Old Town Alexandria	11,296,640	\$39.81	\$31.67	\$36.69	0	0	0
Reston	17,364,296	\$35.35	\$27.07	\$32.41	473,457	473,457	1,260,000
Rosslyn	9,304,192	\$55.10	\$42.65	\$45.88	0	0	0
Route 28 North	5,092,684	\$28.14	\$23.82	\$25.34	0	0	0
Route 28 South	11,366,708	\$28.41	\$23.32	\$27.23	0	125,000	0
Route 7 Corridor	5,136,314	\$28.72	\$20.13	\$27.13	0	0	0
Springfield	4,548,053	\$34.07	\$25.45	\$27.96	0	0	625,000
Stafford County	886,184	\$25.70	\$24.50	\$25.65	0	0	0
Tysons	28,468,210	\$39.37	\$32.91	\$35.55	0	0	351,023
Virginia Square	1,030,321	\$42.00	NA	\$41.69	0	0	0
Western Loudoun County	795,188	\$30.93	\$23.65	\$29.23	0	0	0
Woodbridge	1,294,344	\$25.98	\$22.17	\$24.83	0	0	0

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

## 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.

## NORTHERN VIRGINIA OFFICE SUBMARKETS



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