

# Northern Virginia

Office Q3 2022



	YoY Chg	12-Mo. Forecast
<b>20.0%</b> Vacancy Rate	▲	▲
<b>55K</b> Net Absorption, SF	▲	▼
<b>\$34.26</b> Asking Rent, PSF	▬	▬

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
<b>3.3 M</b> D.C. Metro Employment	▲	▲
<b>3.3%</b> D.C. Metro Unemployment Rate	▼	▼
<b>3.7%</b> U.S. Unemployment Rate	▼	▲

Source: BLS

## Gross Leasing & Demand

Northern Virginia (NoVA) reported its lowest leasing activity since Q3 2020 with 569,741 square feet (sf) in new deals and 639,516 sf of renewals in Q3 2022. This brings new leasing activity to 2,493,993 sf year-to-date (YTD) and renewals to 2,892,987 sf YTD. Route 28 South/Chantilly led the Northern Virginia submarkets with 98,953 sf in new leasing followed closely by Reston/Herndon with 98,944 sf. Fairfax County recorded 356,709 sf, which makes up 63% of new leasing activity in the third quarter, while Arlington County recorded 162,942 sf. Overall, Class A product inked 409,972 sf while Class B registered 148,387 sf of new leasing in Q3 2022. Two counties made up 94% of renewal activity in Q3- Fairfax County recorded 435,658 sf and Arlington County registered 163,380 sf. In Fairfax, Tysons Corner registered 265,966 sf of renewals followed by Rosslyn with 145,822 sf- the county recorded 363,744 sf in in Class A buildings. In Arlington, Rosslyn recorded 139,437 sf in renewals with 92,264 sf in Class B product.

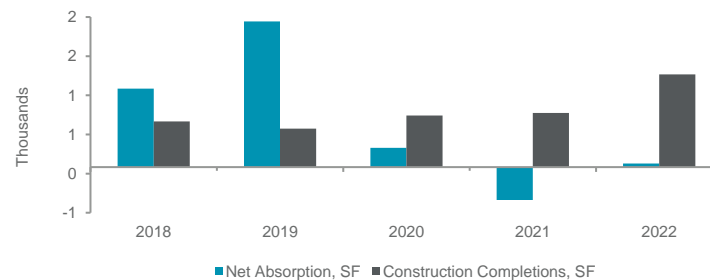
While the third quarter recorded 29 deals over 10,000 sf- 18 new or extensions were completed while 10 renewals were recorded- there were only two new deals over 30,000 sf in Q3. The largest new deal came in Ballston where Apogee Research took 46,328 sf at Ballston Exchange. The second largest new deal was signed by Five Guys Enterprises for 41,340 sf at 1940 Duke St in Old Town. The largest lease of the quarter was signed by Hilton, who announced their corporate headquarters would remain at 7930 Jones Branch Dr in Tysons for another 15 years. Tysons also saw Truist Bank renew for 33,510 sf at 8200 Greensboro Dr while Red Cell inked a new deal for 26,574 sf at 1800 Tysons Blvd, RBC Capital Markets took 19,433 sf at 8010 Towers Crescent Dr and Harmonia Holdings Group signed for 16,072 sf at 8180 Greensboro Dr. In Fairfax, Boeing renewed for 118,780 sf at 12701 Fair Lakes Cir. In Rosslyn, Department of State renewed 92,264 sf at 1700 N Moore St while Raytheon stayed in 43,520 sf at 1300 N 17<sup>th</sup> St. Route 28 South/Chantilly saw Board of Supervisors expand at 14150 Park East Cir in taking 28,137 sf while K. Hovnanian Homes signed for 27,681 sf at 14520 Avion Pky.

## Market Segments

Northern Virginia recorded its second straight quarter of negative absorption, finishing the quarter with negative 43,507 sf. This brings the YTD total to 55,357 sf of positive absorption. The flight to quality is shown clearly in Northern Virginia with class A product registering 305,319 sf of positive absorption YTD while class B and C product combined for negative 249,962 sf YTD.

Fairfax/Oakton/Vienna saw a number of move in's to Class B buildings during the third quarter as Evergreen Academy took 35,787 sf at 11240 Waples Mill Rd and Fairfax County Board of Supervisors moved into 24,358 sf at 12015 Lee Jackson Hwy. Tysons recorded negative 92,422 sf of absorption in Class A buildings while Class B registered 62,938 sf of positive absorption. In Class A buildings, Pansophic Learning took 22,642 sf and Centre Law moved into 11,024 sf at 1750 Tysons Blvd while Octagon took 12,998 sf at Valo Park.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT





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In Tysons Corner Class B space, Standard Healthcare took 17,844 sf at 7600 Leesburg Pike. In Ballston, Marginedge moved into 22,622 sf at 4200 Wilson Blvd and Linden Property Group and CRC Companies took 17,179 combined at 4401 N Fairfax Dr. Crystal City saw Intelbridge/Byte Cubed take 21,938 sf at 2231 Crystal Dr while Venture X moved into 27,907 sf at 3060 Williams Dr in Merrifield.

NoVA registered just under 165,000 sf of negative absorption in Class A buildings for the quarter with a number due to tenants giving back space and acquisitions. CACI gave back 30,000 sf at 14360 Newbrook Dr, GSA- Citizens and Immigration gave back 11,587 sf at 2675 Prosperity Ave and Legum & Norman gave back 14,000 sf at 3130 Fairview Park Dr. Gryphon gave back 17,000 sf at 3811 N Fairfax Dr after ManTech acquired the digital engineering company and Opaq Networks gave back 14,000 sf at 2553 Dulles View Dr after being acquired by Fortinet.

Thirty months since the start of the pandemic, NoVA's office occupancy sits at 42%. With low employee support for a full return to office, companies are hesitant to sign longer leases. Shown in the absorption, groups are doing everything they can to incentivize employees to return to the office – taking smaller space in higher quality space with more amenities has been a large trend.

## Vacancy Stagnant & Rental Rates Up

Overall average vacancy rates rose 120 basis points (bps) year-over-year (YOY) to 20.0% and up 10 bps from Q2 2022. Class A vacancy rose 90 bps YOY to 18.7% while Class B vacancy remained the same YOY at 24.2% in Q3 2022. More buildings have been pulled from inventory as the office to residential conversions pick up steam in NoVA. In Tysons Corner, 7700 and 7704 Leesburg Pike took 135,000 sf combined out of inventory along with 200,000 sf at 4900 seminary Rd in the I-395 Corridor. Other buildings looking for conversion approvals include 5111 & 5113 Leesburg Pike in I-395 Corridor, 593 Herndon Pky in Herndon and 1901 N Moore St in Rosslyn.

Overall average asking rates rose \$0.40 YOY to \$34.26 per square foot (psf) on a full-service basis in Q3 2022, which is a \$0.22 psf increase from last quarter. The Courthouse/Clarendon/Virginia Square submarket had the highest overall average asking rate of all the Northern Virginia submarkets, closing the quarter at \$44.70 psf. Arlington County averaged \$41.08 psf, a \$0.48 psf increase YOY while Fairfax County increased \$0.30 psf YOY and Alexandria increased \$0.79 psf YOY. Class A rates rose \$0.10 YOY to \$36.56 psf in Q3 while Class B rose \$0.57 YOY to \$31.93 psf.

## Development Pipeline & Outlook

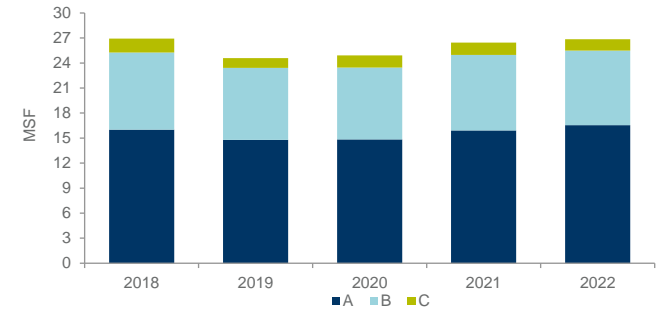
There were no new deliveries in the third quarter, but Northern Virginia currently has three buildings under construction for a total of 740,272 sf, with only 50,000 sf currently pre-leased.

In Reston, Comstock's Reston Row development has two buildings in the works, 1845 & 1875 Reston Row Plaza which will deliver 328,380 sf and 210,487 sf respectively in 2024. VIDA Fitness will take the first three floors of OB4. In Ballston, Skanska has 201,405 sf under construction at 3901 Fairfax Drive – set to deliver in Q4 2023. Finally, Boston Properties broke ground on 12050 Inspiration Street – a 74,600 sf boutique office building in Reston.

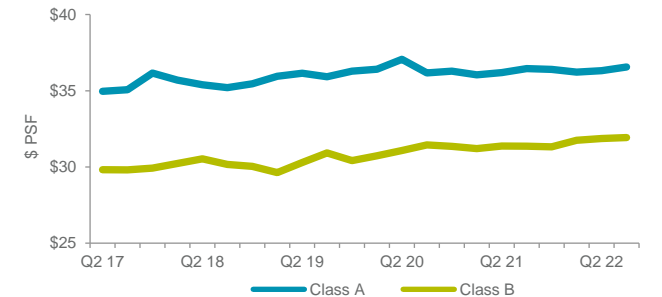
## Investment Sales

Represented by Cushman & Wakefield, Turnbridge Equities and Fundamental Advisors sold a five-property, 860,476 sf cybersecurity and defense infrastructure portfolio. The Fairfax and Loudoun County properties, purchased by GI Partners, are currently leased to four of the five largest defense companies in the United States – Boeing, Lockheed Martin, General Dynamics, and Northrop Grumman. The portfolio sold for \$220,000,000 (\$256.54 per square foot).

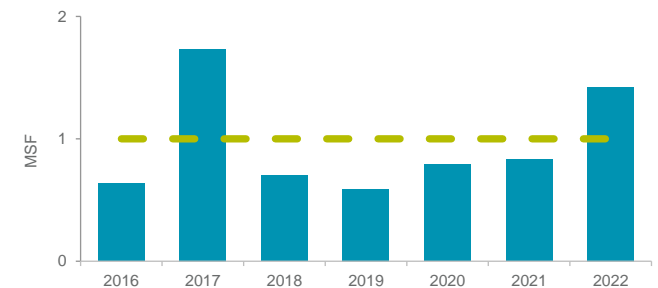
## VACANT SPACE BY CLASS



## ASKING RENT COMPARISON



## NEW SUPPLY



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## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Rosslyn	9,058,167	55,291	1,703,263	19.4%	5,280	-11,765	189,325	-	\$40.55	\$42.04
Courthouse/Clarendon/VA Square	5,792,811	89,763	1,271,121	23.5%	-42,482	-165,269	78,483	-	\$44.70	\$45.27
Ballston	7,255,036	64,582	1,855,578	26.5%	48,283	65,994	290,865	201,405	\$41.25	\$41.67
Crystal City/Pentagon City	11,162,668	17,597	2,838,232	25.6%	-31,803	-363,686	57,177	-	\$38.31	\$40.72
<b>Arlington County</b>	<b>33,268,682</b>	<b>227,233</b>	<b>7,668,194</b>	<b>23.7%</b>	<b>-20,722</b>	<b>-474,726</b>	<b>615,850</b>	<b>201,405</b>	<b>\$41.08</b>	<b>\$42.30</b>
Old Town	7,825,706	94,922	919,330	13.0%	-17,113	-64,796	93,737	-	\$36.48	\$39.87
I-395	4,421,505	28,544	1,039,693	24.2%	-8,710	13,220	69,104	-	\$30.10	\$33.23
Huntington/Eisenhower	2,861,709	47,854	1,138,238	41.4%	-33,969	-15,968	11,730	-	\$35.37	\$37.45
<b>City of Alexandria</b>	<b>15,108,920</b>	<b>171,320</b>	<b>3,097,261</b>	<b>21.6%</b>	<b>-59,792</b>	<b>-67,544</b>	<b>174,571</b>	<b>-</b>	<b>\$34.14</b>	<b>\$37.86</b>
<b>Inside the Beltway</b>	<b>48,377,602</b>	<b>398,553</b>	<b>10,765,455</b>	<b>23.1%</b>	<b>-80,514</b>	<b>-542,270</b>	<b>790,421</b>	<b>201,405</b>	<b>\$38.11</b>	<b>\$40.04</b>
Annandale/Baileys	1,204,881	0	226,731	18.8%	-5,873	-35,116	7,604	-	\$25.95	\$31.50
Merrifield/Route 50	6,821,558	87,880	998,116	15.9%	-3,678	86,438	182,894	-	\$31.04	\$32.75
Fairfax/Oakton/Vienna	9,426,974	56,941	2,113,470	23.0%	28,419	111,414	128,718	-	\$28.34	\$30.49
Tysons Corner	22,586,798	159,806	4,423,897	20.3%	-9,099	-159,444	509,116	-	\$36.39	\$39.84
Reston/Herndon	26,956,432	133,687	4,857,240	18.5%	-13,764	591,594	537,221	613,467	\$33.46	\$35.63
Route 28 South/Chantilly	9,734,794	59,264	1,250,203	13.5%	-38,899	-60,675	159,251	-	\$27.28	\$28.47
Springfield	3,568,868	3,000	498,088	14.0%	58,362	79,160	62,354	-	\$29.64	\$36.37
<b>Fairfax County</b>	<b>80,300,305</b>	<b>500,578</b>	<b>14,367,745</b>	<b>18.5%</b>	<b>15,468</b>	<b>613,371</b>	<b>1,587,158</b>	<b>613,467</b>	<b>\$32.54</b>	<b>\$35.23</b>
<b>Loudoun County</b>	<b>5,844,167</b>	<b>47,988</b>	<b>775,054</b>	<b>14.1%</b>	<b>21,539</b>	<b>-15,744</b>	<b>116,414</b>	<b>-</b>	<b>\$28.00</b>	<b>\$30.49</b>
<b>Outside the Beltway</b>	<b>86,144,472</b>	<b>548,566</b>	<b>15,142,799</b>	<b>18.2%</b>	<b>37,007</b>	<b>597,627</b>	<b>1,703,572</b>	<b>613,467</b>	<b>\$30.01</b>	<b>\$33.19</b>
<b>Northern Virginia Totals</b>	<b>134,522,074</b>	<b>947,119</b>	<b>25,908,254</b>	<b>20.0%</b>	<b>-43,507</b>	<b>55,357</b>	<b>2,493,993</b>	<b>814,872</b>	<b>\$34.26</b>	<b>\$36.56</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7930 Jones Branch Drive	Tysons Corner	Hilton Worldwide	220,000	Renewal*
12701 Fair Lakes Circle	Fairfax/Oakton/Vienna	The Boeing Company	118,780	Renewal*
1700 North Moore Street	Rosslyn	GSA – Dept. of State	92,264	Renewal*
4201 Wilson Boulevard	Ballston	Apogee Research	46,328	New Lease

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q3 2022

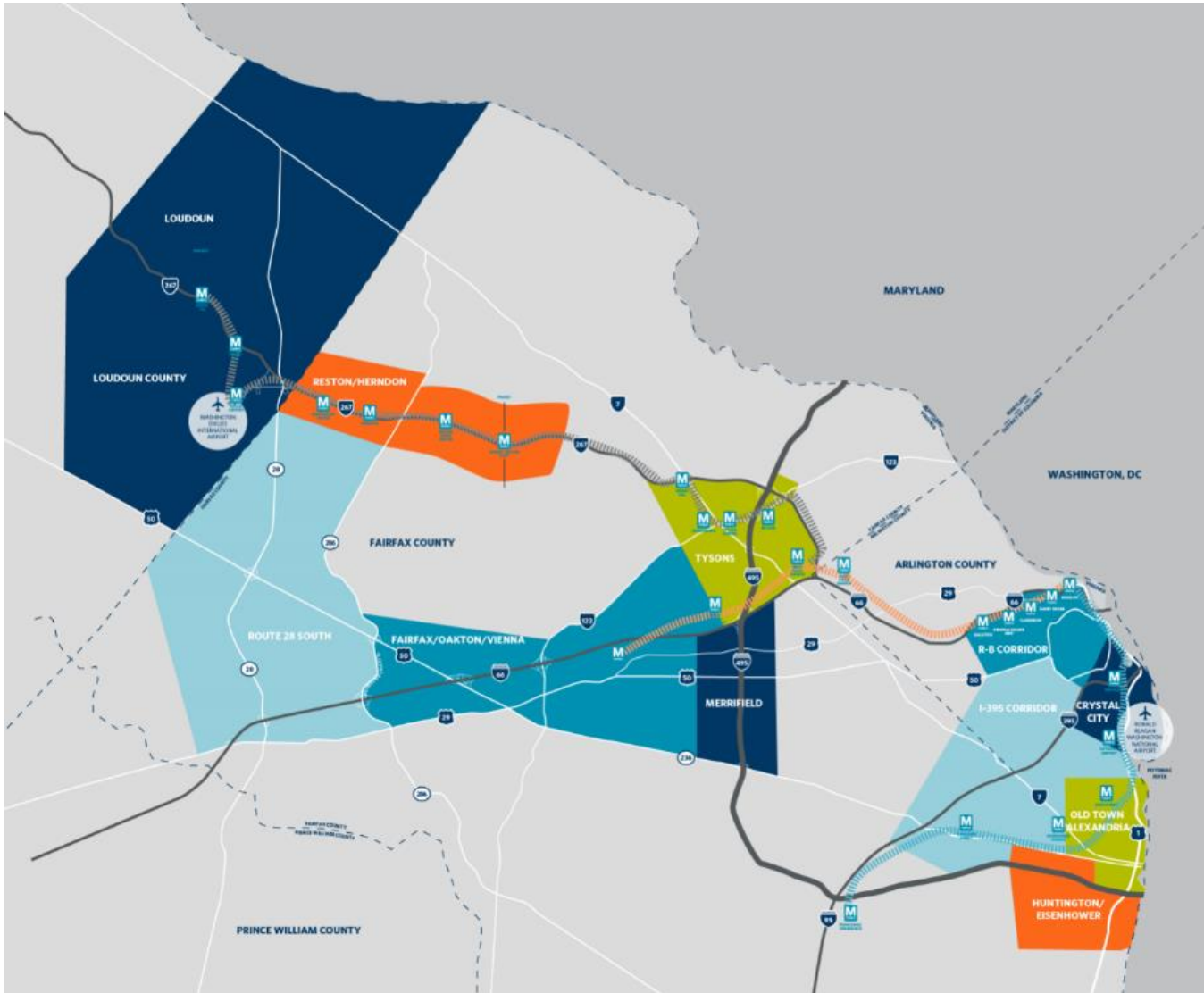
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
460 Herndon Parkway	Herndon	Turnbridge Equities / GI Partners	205,074	\$67,400,000 (\$328.66)
12450 Fair Lakes Circle	Fairfax	Turnbridge Equities / GI Partners	184,414	\$42,000,000 (\$227.75)



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OFFICE SUBMARKETS



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