

# Northern Virginia

Office Q3 2023



	YoY Chg	12-Mo. Forecast
<b>21.5%</b> Vacancy Rate	▲	▲
<b>-631K</b> Net Absorption, SF	▲	▼
<b>\$34.76</b> Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
<b>3.4 M</b> D.C. Metro Employment	▲	▲
<b>2.3%</b> D.C. Metro Unemployment Rate	▼	▲
<b>3.7%</b> U.S. Unemployment Rate	▲	▲

Source: BLS

## Gross Leasing & Demand

In Q3 2023, Northern Virginia recorded 505,781 square feet (sf) of new leasing and 462,475 sf of renewal activity. This brings year-to-date (YTD) new leasing to 2,121,144 sf and renewal activity to 2,299,597 sf. New leasing decreased 44% from the second quarter of 2023 and renewal activity dropped 57%; total leasing activity is down 29% from this point last year. Route 28 South/Chantilly led the Northern Virginia submarkets in new leasing for the second quarter in a row with 208,085 sf recorded while Tysons Corner led in renewal activity with 146,106 sf inked. Fairfax County recorded 681,879 sf of total leasing activity, 70.4% of Northern Virginia's total, followed by Arlington County with 194,832 sf, Loudoun County with 65,604 sf, and Alexandria with 25,941 sf. Class A product accounted for 80% of new leasing activity and 60% of renewals while Class B product accounted for 20% of new leasing and 15% of renewals.

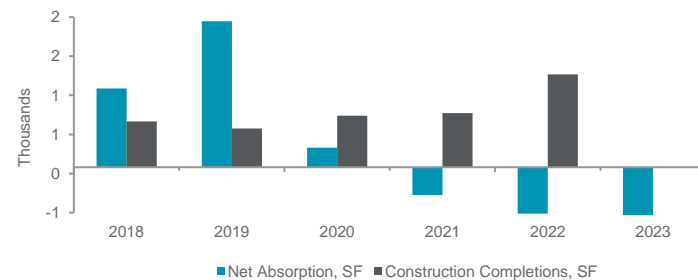
The second quarter recorded 10 deals over 20,000 sf - 3 new or expansion deals were completed while 7 renewals were recorded. The two largest leases of the quarter were government leasing with the Drug Enforcement Agency (DEA) signing for 175,000 sf, a 38,000-sf expansion to their Northern Virginia footprint, at 15000 Conference Center Drive in Route 28 South/Chantilly and the Board of Supervisors of Fairfax County renewing for 100,455 sf at 7611 Little River Tpke in Annandale. The largest private sector lease came in Tysons Corner where Nodal Exchange renewed for 42,000 sf at 1921 Gallows Road. In Ballston, CRC Advisors signed the largest new lease for a private sector tenant after inking 38,749 sf at 950 North Glebe Road. The Reston/Herndon submarket saw another headquarters relocation with Securiport signing for 24,864 sf at 1900 Reston Metro Plaza –the border security company had spent the last twenty years in Georgetown.

## Market Segments

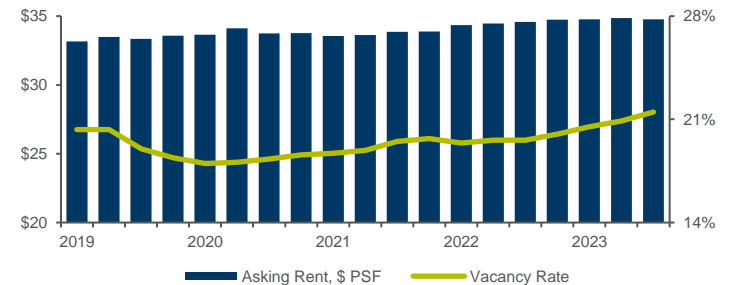
Northern Virginia recorded its fifth consecutive quarter of negative absorption after posting negative 631,709 sf, bringing overall net absorption to negative 1,494,077 sf YTD. The Reston/Herndon submarket recorded the lowest overall absorption in Q3 with negative 233,261 sf and followed by Tysons Corner with negative 153,160 sf. Fairfax County is responsible for 1.2 msf of negative absorption YTD while Arlington County recorded 330,261 sf and Alexandria registered 102,257 sf YTD. Loudoun County is the only county reporting positive absorption with 66,959 sf YTD. Class A recorded negative 386,839 sf while Class B posted negative 290,465 sf. This brings the YTD total to negative 939,986 sf in Class A and negative 520,398 sf in Class B.

In Herndon, Booz Allen Hamilton vacated 135,376 sf at 575 Herndon Parkway, following the trend of other federal contractors consolidating their real estate portfolio in Northern Virginia. In Tysons Corner, Capital One moved out of 123,299 sf at 1750 Tysons

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT





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Boulevard, consolidating into their campus at Capital One Center. Long and Foster recorded a massive downsize after vacating 110,336 sf at 14501 George Carter Way in Route 28 South/Chantilly. The real estate company consolidated into 26,568 sf at 3975 Fair Ridge Drive in Fairfax. Amentum began their consolidation into their newly named Chantilly headquarters, putting 41,130 sf on the sublease market at 1320 North Courthouse Road in Clarendon. Hobsons, a higher education software business, vacated 38,744 sf at 3033 Wilson Boulevard in Clarendon as well after the company was split and sold. In Tysons, Venable vacated 40,023 sf at 8010 Towers Crescent Drive and downsized into 23,000 sf at 1850 Towers Crescent.

In Crystal City, Shield AI moved into 42,872 sf at 2450 Crystal Drive. The drone startup is new to market after winning a defense contract last year. Federated Wireless moved in to 36,000 sf down the street at 2121 Crystal Drive after the defense contractor vacated an entire floor at 4075 Wilson Blvd. In Tysons, Appian completed their expansion at 7950 Jones Branch Drive which totaled 58,808 sf. The Westpark Corporate Center at 8484 Westpark Drive saw two Q3 moves with First Savings Mortgages occupying 13,444 sf and Dwell Design Studio occupying 12,020 sf. In Reston, Cisco added 16,447 sf to their footprint at 2001 Edmund Halley Drive.

### Vacancy Inches Up & Rental Rates Increase

Overall average vacancy rates rose 170 basis points (bps) year-over-year (YOY) to 21.5%, up 60 bps from Q2 2023. Class A vacancy rose 70 bps to 20.8%, Class B rose 80 bps to 24.8%, and Class C dropped 50 bps to 16.1% from Q2 2023. Overall average asking rates rose \$0.34 YOY to \$34.76 per square foot (psf) on a full-service basis in Q3 2023, a \$0.06 decrease from last quarter. The Courthouse/Clarendon/Virginia Square submarket had the highest overall average asking rate of all the Northern Virginia submarkets, finishing the quarter at \$42.78 psf, down \$1.87 psf YOY. Arlington County averaged \$41.01 psf, a \$0.39 decrease YOY, while Fairfax County increased \$0.37 psf YOY to \$33.16 psf and Alexandria increased \$0.10 psf YOY to \$34.73 psf. Class A rates rose \$0.19 YOY to \$36.89 psf in Q3 while Class B rose \$0.37 YOY to \$32.65 psf.

### Development Pipeline & Outlook

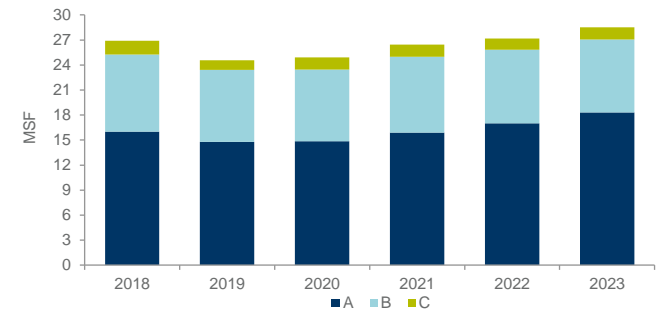
There were no new deliveries in the third quarter, but Northern Virginia currently has four buildings under construction for a total of 700,771 sf that have not recorded any pre-leasing activity. In Reston, Comstock's Reston Row development has two buildings in the works, 1845 and 1880 Reston Row Plaza (OB4 and OB5) which will deliver 271,806 sf and 166,331 sf, respectively, in 2024 and 2025. In Ballston, Skanska has 191,034 sf under construction at 3901 Fairfax Drive – set to deliver in Q1 2024. Boston Properties' 12050 Inspiration Street – a 74,600 sf boutique office building in Reston Town Center- broke ground in Q2 2022 and will deliver in early 2024.

Office to residential conversions are on the rise and has accounted for 765,000 sf of competitive office product being removed from Northern Virginia's total inventory. On top of the projects that have broken ground, conversions of more than 2.6 MSF across 18 office properties have been proposed by developers.

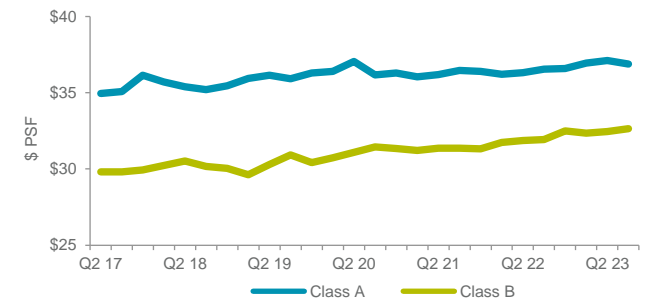
### Investment Sales

The largest office sale in Q3 came in Alexandria where Melrose Solomon Enterprises acquired Courthouse Square (510-526 King Street) from Brookfield properties for \$29,500,000, or \$245.77 psf. Reston Metro Center, a vacant 124,225 sf office building, was acquired by Verisign for \$19,000,000 or \$152.95 psf in July. The internet company plans to fully occupy the building.

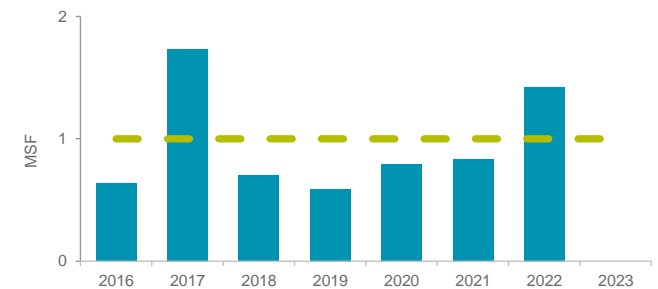
### VACANT SPACE BY CLASS



### ASKING RENT COMPARISON



### NEW SUPPLY



## Northern Virginia

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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	8,936,753	18,991	1,753,578	19.8%	-47,110	-74,227	55,755	-	\$39.89	\$43.16
Courthouse/Clarendon/VA Square	5,792,811	86,346	1,393,254	25.5%	-92,346	-119,318	35,155	-	\$42.78	\$43.55
Ballston	7,255,036	62,342	1,981,944	28.2%	13,043	-68,073	218,997	191,034	\$41.20	\$42.58
Crystal City/Pentagon City	10,998,053	21,346	2,910,819	26.7%	18,074	-68,643	122,992	-	\$39.69	\$40.17
<b>Arlington County</b>	<b>32,982,653</b>	<b>189,025</b>	<b>8,039,595</b>	<b>24.9%</b>	<b>-108,339</b>	<b>-330,261</b>	<b>432,899</b>	<b>191,034</b>	<b>\$41.01</b>	<b>\$42.38</b>
Old Town	7,724,029	54,983	888,177	12.2%	-18,243	-15,989	60,926	-	\$36.41	\$39.60
I-395	3,885,879	0	743,186	19.1%	-33,552	-76965	43,569	-	\$29.86	\$34.05
Huntington/Eisenhower	2,861,709	31,670	1,171,943	42.1%	-5,232	-9,303	12,839	-	\$35.53	\$37.15
<b>City of Alexandria</b>	<b>14,471,617</b>	<b>86,653</b>	<b>2,803,306</b>	<b>20.0%</b>	<b>-57,027</b>	<b>-102,257</b>	<b>117,334</b>	<b>-</b>	<b>\$34.73</b>	<b>\$37.62</b>
<b>Inside the Beltway</b>	<b>47,454,270</b>	<b>275,678</b>	<b>10,842,901</b>	<b>23.4%</b>	<b>-165,366</b>	<b>-432,518</b>	<b>550,233</b>	<b>191,034</b>	<b>\$38.53</b>	<b>\$40.18</b>
Annandale/Baileys	1,204,881	0	221,886	18.4%	15,532	-6120	18,323	-	\$26.41	\$31.50
Merrifield/Route 50	6,821,558	12,766	1,055,871	15.7%	-19,810	6,208	121,883	-	\$31.44	\$33.87
Fairfax/Oakton/Vienna	9,299,891	59,521	2,304,073	25.4%	14,589	-333,197	124,207	-	\$28.56	\$30.52
Tysons Corner	22,123,976	125,967	4,853,082	22.5%	-153,160	-329,513	271,838	-	\$36.43	\$39.65
Reston/Herndon	26,484,286	269,123	5,782,331	22.8%	-233,261	-438,754	402,391	512,368	\$34.42	\$35.98
Route 28 South/Chantilly	9,734,794	24,171	1,315,116	13.8%	-113,127	-15,860	499,399	-	\$28.74	\$29.04
Springfield	3,568,868	0	580,634	16.3%	22,029	-11282	23,230	-	\$29.71	\$37.68
<b>Fairfax County</b>	<b>79,238,254</b>	<b>491,548</b>	<b>16,112,993</b>	<b>21.0%</b>	<b>-467,208</b>	<b>-1,128,518</b>	<b>1,461,271</b>	<b>512,368</b>	<b>\$33.16</b>	<b>\$35.68</b>
<b>Loudoun County</b>	<b>5,755,735</b>	<b>52,233</b>	<b>744,241</b>	<b>13.8%</b>	<b>865</b>	<b>66,959</b>	<b>109,640</b>	<b>-</b>	<b>\$27.82</b>	<b>\$30.50</b>
<b>Outside the Beltway</b>	<b>84,993,989</b>	<b>543,781</b>	<b>16,857,234</b>	<b>20.5%</b>	<b>-466,343</b>	<b>-1,061,559</b>	<b>1,570,911</b>	<b>512,368</b>	<b>\$32.89</b>	<b>\$35.39</b>
<b>Northern Virginia Totals</b>	<b>132,448,259</b>	<b>819,459</b>	<b>27,700,135</b>	<b>21.5%</b>	<b>-631,709</b>	<b>-1,494,077</b>	<b>2,121,144</b>	<b>703,402</b>	<b>\$34.76</b>	<b>\$36.89</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
15000 Conference Center Drive	Route 28 South/Chantilly	Drug Enforcement Agency (DEA)	175,000	New Lease
761 Little River Tpke	Annandale/Baileys	Board of Supervisors of Fairfax County	100,455	Renewal
1921 Gallows Road	Tysons Corner	Nodal Exchange	42,000	Renewal
950 North Glebe Road	Ballston	CRC Advisors	38,749	New Lease

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q3 2023

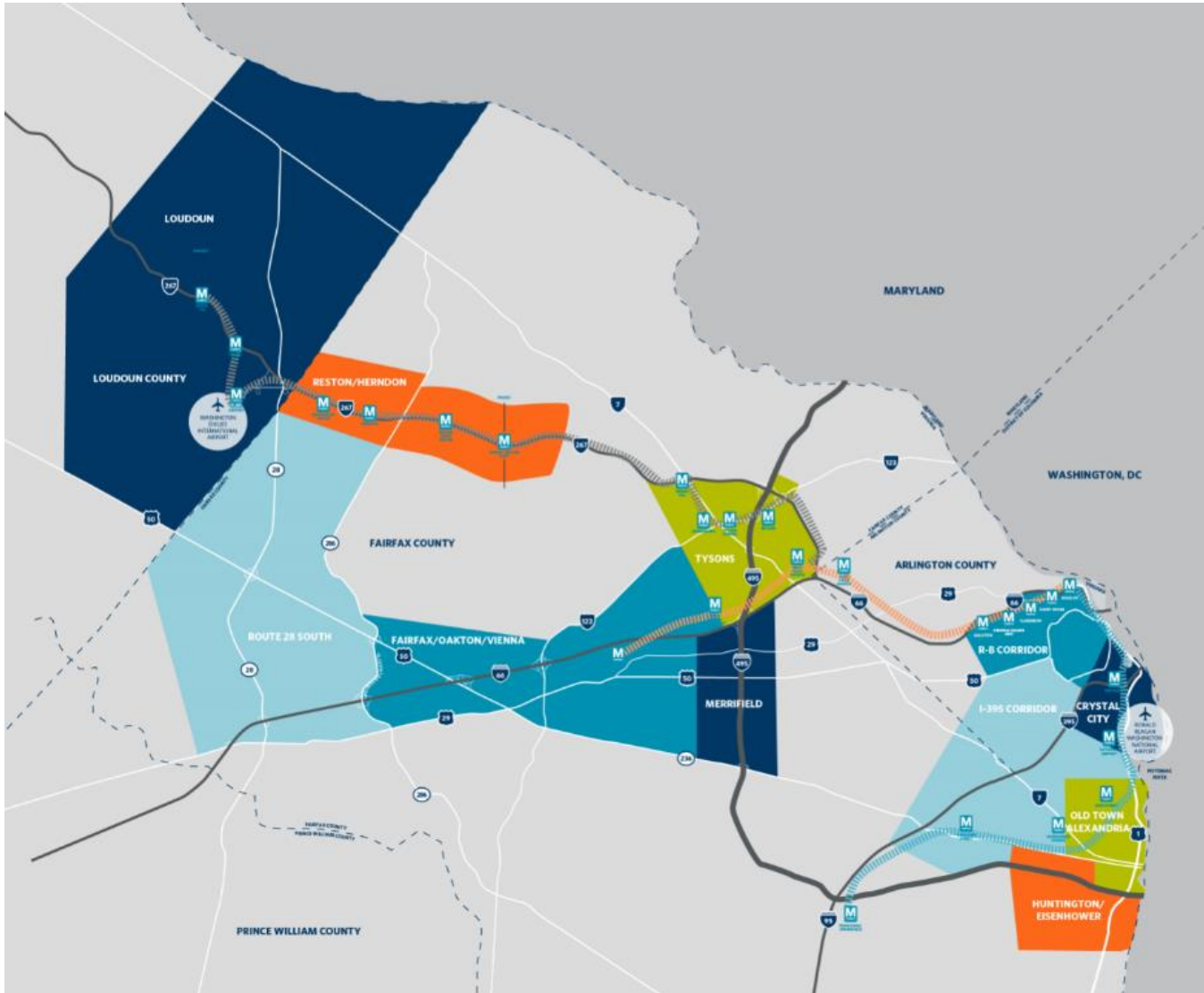
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
510-526 King Street	Old Town	Brookfield / Melrose Solomon Enterprises	120,030	\$29,500,000 (\$245.77)
1881 Campus Commons Dr	Herndon	TA Realty / TF Cornerstone	244,565	\$25,100,000 (\$106.63)

# Northern Virginia

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## OFFICE SUBMARKETS



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