



QUARTERLY REPORT

NORTHERN VIRGINIA OFFICE Q4 2023



Q4 SNAPSHOT 2023 NOVA



The fourth quarter of 2023 saw Northern Virginia's office market facing challenges with continued negative absorption, resulting in a slight increase in vacancy rates.

Despite this, leasing activity remained steady, albeit subdued, with notable transactions by Amazon and Washington University of Science and Technology.

Development activity was relatively quiet, with no new deliveries during the quarter, but several projects are underway. Pricing trends saw an increase in average asking rates, driven by factors like core submarket availability and residential conversions.

The economic outlook suggests a 'soft landing' for early 2024, with modest growth expected. Despite challenges, there are positive indicators for real estate performance in the upcoming year.

Market Overview

- Northern Virginia's office market recorded an occupancy loss in the fourth quarter, pushing vacancy rates to 23.3%.
- Leasing activity remained low, with 32 tenants signing leases totaling 1.3 million sq. ft., a level 25% below the post-pandemic quarterly average.
- Sublease availability remains elevated, representing 123% above pre-pandemic levels, though there's a decline in total availability from the peak in Q2 2023.
- Development activity includes four properties under construction, with significant potential for office-to-residential conversions.
- Average asking rates increased to \$36.57 per sq. ft. on a full-service basis. This was driven by various factors including the reduction of less expensive, lower quality space due to residential conversions and the delivery of new high-end office inventory.
- Concessions have risen 34% above pre-pandemic levels, reflecting landlords' efforts to attract tenants in a competitive market.

Northern Virginia | Office Market | All Classes | Q4 2023

Market	Total Inventory SF	Deliveries Current SF	Deliveries 2023 SF	Under Construction SF	Net Absorption Current SF	Net Absorption 2023 SF	Overall Vacancy Rate	Avg Asking Rental Rate (FSG)
Alexandria City								
Carlyle/King St Metro	7,762,139	-	-	-	-30,985	-167,787	15.4%	\$39.00
Eisenhower Ave Corridor	792,985	-	-	-	11,267	22,304	18.5%	\$28.85
I-395 Corridor	6,690,333	-	-	-	-19,788	-138,076	33.5%	\$30.84
Old Town	5,387,326	-	-	-	8,918	3,973	16.5%	\$35.28
Alexandria City Total	17,442,459	-	-	-	-34,248	-230,321	19.7%	\$36.04
Arlington County/ Falls Church City								
Falls Church**	2,235,145	-	-	-	-24,590	20,509	19.2%	\$32.16
National Landing***	15,404,767	-	2,100,000	-	-45,080	1,669,744	24.1%	\$39.22
Rosslyn/Ballston Corridor	24,661,041	-	-	511,217	-60,682	-285,477	24.8%	\$41.43
Arlington County/Falls Church Total	41,905,171	-	2,100,000	511,217	-103,572	1,415,766	23.9%	\$40.71
Fairfax County/ Fairfax City								
Annandale	1,834,490	-	-	-	-2,228	12,211	11.8%	\$26.00
Fairfax/Oakton	13,211,388	-	-	-	-20,971	-120,410	19.8%	\$27.66
Herndon	11,989,902	-	-	-	-14,180	-43,929	28.9%	\$33.46
McLean	1,529,780	-	-	-	1,431	-16,580	9.0%	\$31.71
Merrifield	8,734,873	-	-	-	-8,567	266,415	14.3%	\$32.28
Reston	20,398,826	-	-	615,611	-72,726	-463,732	23.7%	\$33.71
Route 28 Corridor South	14,574,841	-	-	-	-74,863	-244,142	16.3%	\$29.31
Springfield/Huntington	7,828,759	-	-	-	-15,298	-104,772	15.6%	\$31.97
Tysons Corner	29,506,762	-	850,000	-	27,203	305,618	20.5%	\$38.43
Vienna	2,382,332	-	-	-	-3,218	-13,469	20.5%	\$25.00
Fairfax Area Total	115,578,059	-	850,000	615,611	-206,537	-483,045	20.6%	\$33.39
Loudoun County								
Leesburg/West Loudoun	2,389,088	-	-	-	4,775	-5,370	6.1%	\$30.81
Route 28 Corridor North	9,477,639	-	-	-	-86,681	-52,329	14.0%	\$26.82
Route 7 Corridor	4,209,408	-	-	-	-77,011	-2,710	8.3%	\$30.02
Loudoun County Total	16,076,135	-	-	-	-158,917	-60,409	11.3%	\$27.27
Prince William County/Manassas City/Manassas Park								
Manassas	1,941,392	-	-	-	31,304	-45,002	4.0%	\$24.42
Route 29/I-66 Corridor	2,627,370	-	-	-	-21,258	-8,402	8.6%	\$24.20
Woodbridge	2,571,451	-	-	-	5,077	26,688	9.6%	\$28.33
Prince William Area Total	7,140,213	-	-	-	15,123	-26,716	7.7%	\$25.92
Northern Virginia Total	198,142,037	-	2,950,000	1,126,828	-488,151	615,275	20.0%	\$34.84

* I-395 is split between Arlington County, Fairfax County and Alexandria City

** Falls Church is split between Fairfax County and Falls Church City

*** National Landing is split between Alexandria City and Arlington County

Supply/Demand Dynamics

- Negative absorption of 488,151 sq. ft. was recorded in the fourth quarter, contributing to an annual positive demand of 615,275 sq. ft., mainly due to Amazon's HQ2 move.
- Class B space saw the bulk of negative absorption, marking the 16th consecutive quarter of negative demand.
- Vacancy rates increased to 20.0%, with Class B/C space seeing a larger increase compared to Class A.

Trends and Insights

- Leases are increasingly signed for longer terms, a little over six years on average, indicating tenant commitment despite downsizing trends.
- Small leases (less than 6,000 sq. ft.) accounted for nearly half of leasing velocity, consistent with downsizing trends.
- Buildings closer to metro stations experienced higher vacancy rates on average of over 21%. Compared to developments a further distance from a metro station.
- Northern Virginia experienced net occupancy loss in Q4 but positive growth for the year, driven by major move-ins earlier in the year.
- Leasing activity was diversified across industries, with tech tenants leading the pack.
- Office inventory is expected to decline with over 8.1 million sq. ft. scheduled for redevelopment. Of this 80% of the applications are for residential redevelopment which would add 12,670 multifamily units over 13 submarkets.



Outlook

- A flight-to-quality trend is expected to drive a bifurcated market, with leasing activity focused on mixed-use submarkets.
- Planned redevelopment projects are likely to further reduce inventory, contributing to market stability.
- Despite challenges, positive economic indicators suggest potential upside surprises for real estate performance in 2024.

In conclusion, while the Northern Virginia office market faced challenges in the fourth quarter of 2023, there are promising signs for future stability and growth, particularly in mixed-use submarkets and redevelopment projects.

Continued monitoring of leasing trends, supply/demand dynamics, and economic indicators will be crucial for stakeholders navigating this evolving market landscape.



Sources:

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CBRE. (2023). Leasing Remains Subdued in Fourth Quarter.

Colliers. (2024). Northern Virginia 23Q4.

JLL. (2024). Northern Virginia Office Insight – Q4 2023.