QUARTERLY REPORT

NORTHERN VIRGINIA OFFICE Q2 2024

Q2 SNAPSHOT 2024 NOVA

The Northern Virginia office market continued to face challenges in Q2 2024, marked by increasing vacancy rates and negative net absorption. The construction pipeline continued to shrink as projects were completed, with new deliveries adding vacant space to the market.

The quarter's largest transaction was a renewal by Northrup Grumman for 309,757 square feet at 12900 Federal Systems Park Drive in the Fairfax Center submarket, while KBR also renewed 104,413 square feet at 15020 Conference Center Drive in the Route 28 Corridor South submarket.

Construction activity remains limited, with less than one million square feet still under development.

Market Overview

- The overall vacancy rate remained above 20% for the third consecutive quarter, increasing by 10 basis points to 20.2%, a new all-time high for the market.

- Leasing activity seems to have stabilized at around 1.7 million square feet per quarter. Engineering and Aerospace and Defense (A&D) tenants were particularly active, accounting for 54% of leasing volume and posting positive absorption.

- Overall asking rates increased to $37.59 per square foot on a full-service basis, driven primarily by new construction. Concessions have decreased slightly quarter-over-quarter but are still 26% higher than pre-pandemic levels

- Development activity included two office properties delivered during Q2 2024:
  1800 Reston Row Plaza: 284,000 square feet of trophy office space in Reston, fully available for lease.
  3901 N Fairfax Drive: 191,000 square feet of trophy office product in the Ballston submarket, also fully available for lease.

Northern Virginia | Office Market | All Classes | Q2 2024

Market	Total Inventory (SF)	Deliveries Current (SF)	Deliveries YTD (SF)	Under Construction (SF)	Net Absorption Current (SF)	Net Absorption YTD (SF)	Overall Vacancy Rate	Avg Asking Rental Rate (FSG)
Alexandria City								
Carlyle/King St Metro	7,762,139	-	-	-	-165,009	-117,052	16.9%	$37.88
Eisenhower Ave Corridor	792,985	-	-	-	345	-14,652	20.3%	$30.06
I-395 Corridor	6,566,480	-	-	-	37,581	54,359	31.4%	$32.42
Old Town	5,078,868	-	-	-	-15,580	-26,483	14.4%	$35.52
Alexandria City Total	**17,010,148**	-	-	-	**-150,037**	**-118,975**	**19.1%**	**$35.81**
Arlington County/ Falls Church City								
Falls Church**	2,235,145	-	-	-	9,601	13,787	19.2%	$32.36
National Landing***	15,404,767	-	-	-	-11,646	-32,223	24.3%	$39.23
Rosslyn/Ballston Corridor	24,861,617	200,576	200,576	310,641	-172,092	-320,741	26.7%	$41.82
Arlington County/Falls Church Total	**42,105,747**	-	**200,576**	**310,641**	**-178,253**	**-343,840**	**25.1%**	**$41.03**
Fairfax County/ Fairfax City								
Annandale	1,834,490	-	-	-	13,526	31,369	10.1%	$26.31
Fairfax/Oakton	13,211,388	-	-	-	67,121	22,994	19.7%	$27.93
Herndon	12,020,973	-	-	-	1,175	-48,794	28.9%	$33.19
McLean	1,529,780	-	-	-	10,515	-11,468	9.7%	$33.59
Merrifield	8,734,873	-	-	-	16,997	-79,938	15.2%	$31.78
Reston	20,398,826	-	-	615,611	-26,852	36,222	23.5%	$32.97
Route 28 Corridor South	14,574,841	-	-	-	66,469	151,163	15.2%	$29.08
Springfield/Huntington	7,828,759	-	-	-	28,568	9,435	15.5%	$31.63
Tysons Corner	29,405,641	-	-	-	-96,323	-367,025	21.5%	$38.37
Vienna	2,382,332	-	-	-	6,688	-3,920	20.7%	$25.36
Fairfax Area Total	**115,508,009**	-	-	**615,611**	**99,374**	**-240,152**	**20.7%**	**$33.48**
Loudoun County								
Leesburg/West Loudoun	2,389,088	-	-	-	-21,763	-7,960	6.4%	$33.61
Route 28 Corridor North	9,337,256	-	-	-	62,576	65,575	13.3%	$27.89
Route 7 Corridor	4,209,408	-	-	-	6,309	8,815	8.1%	$28.19
Loudoun County Total	**15,935,752**	-	-	-	**47,122**	**66,430**	**10.9%**	**$28.34**
Prince William County/Manassas City/Manassas Park								
Manassas	1,912,442	-	-	-	-9,227	-19,693	5.0%	$24.39
Route 29/I-66 Corridor	2,627,370	-	-	-	29,772	63,040	6.2%	$23.77
Woodbridge	2,571,451	-	-	-	-12,069	18,357	8.9%	$32.71
Prince William Area Total	**7,111,263**	-	-	-	**8,476**	**61,704**	**6.9%**	**$27.23**
Northern Virginia Total	**197,670,919**	**200,576**	**200,576**	**926,252**	**-173,318**	**-574,833**	**20.2%**	**$35.07**

* 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

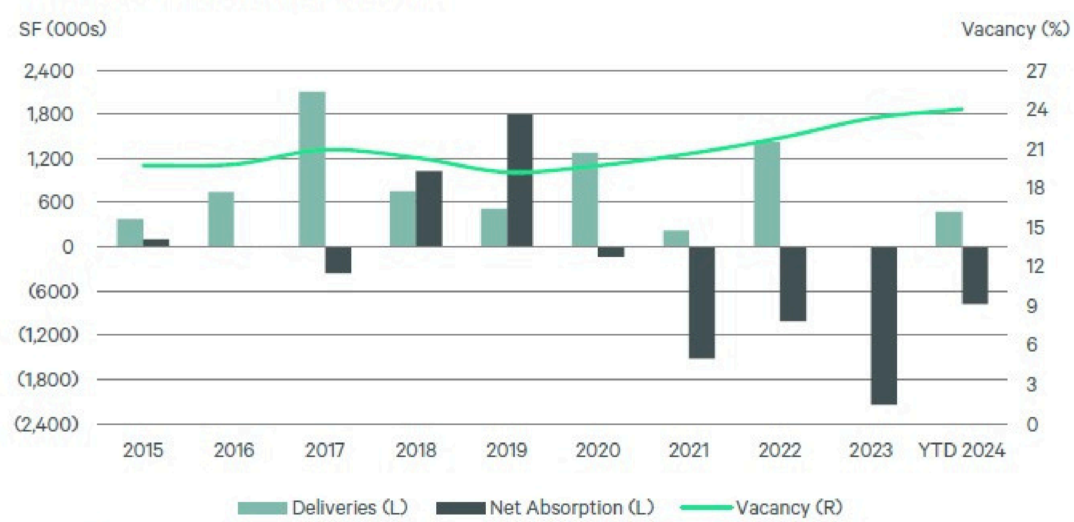
Supply/Demand Dynamics

- Leasing activity totaled 1.9 million square feet, with 42 tenants signing leases larger than 10,000 square feet.
- The Class A vacancy rate rose to 21.2%, up 50 basis points from Q1, driven by negative absorption in Class A space and the delivery of new properties.
- The combined Class B/C vacancy rate saw a slight decrease, ending the quarter at 19.2%, though it was up from 18.9% a year ago.

Trends and Insights

- Northern Virginia's proposed redevelopment pipeline reached 10.1 million square feet, with over 1.5 million square feet added in Q2. 86% of the applications call for residential use, which would add 14,223 multifamily units across 17 submarkets.
- The development pipeline remains at historical lows. The active pipeline is limited to just three buildings across the entire market.
- Sublet availability declined for the fifth consecutive quarter, reaching its lowest level since the end of 2021.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Outlook

The flight-to-quality trend will increasingly drive a bifurcated market, with future leasing activity projected to occur predominantly in mixed-use submarkets along the demand corridor (Rosslyn-Ballston Corridor, National Landing, Tysons and the Toll Road).

The inventory will continue to decline as a large volume of planned redevelopment projects begin to kick off. Such rightsizing, coupled with a low construction pipeline, should help bring more stability to the market.

Last year's expansion was almost certainly driven by fiscal stimulus that far exceeded other Western countries. Today, stimulus effects are fading, and higher interest rates continue to bite. There is evidence of this on the consumer front, wherein delinquency rates are trending upward, and credit growth is quickly slowing. The latter signals that consumption—a key driver of GDP growth in recent quarters—is poised to slow further. This partly explains why growth is expected to settle at the mid-1% range this year.

Fed rate cuts are downstream of disinflation, and a most welcome outcome within the commercial real estate space where higher financing costs and devaluations are triggering distress. The prospect of a rate cut this autumn will at least help ease rate volatility, put cap rates on a slight downward trajectory, and generate more common ground between buyers and sellers in coming quarters.

Sources:

Avison Young. (2024). Northern Virginia Office Market Report Q2 2024.

CBRE. (2024). Leasing Volume Remains Stable in Northern Virginia Quarter-over-Quarter.

Colliers. (2024). Northern Virginia 24Q2.

JLL. (2024). Northern Virginia – Q2 2024.