

NORTHERN VIRGINIA OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
D.C. Metro Employment	3.3M	3.3M	▲
D.C. Metro Unemployment	3.6%	3.4%	■
U.S. Unemployment	4.4%	3.9%	▼

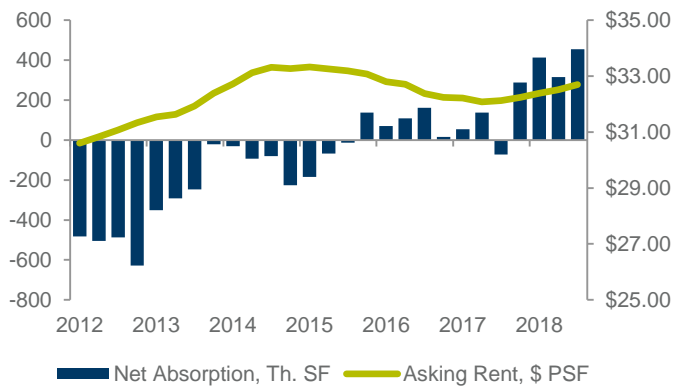
Market Indicators (Overall, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	22.0%	20.6%	▲
YTD Net Absorption (sf)	140k	805k	■
Under Construction (sf)	3.3M	1.9M	▲
Average Asking Rent*	\$32.07	\$32.79	▲

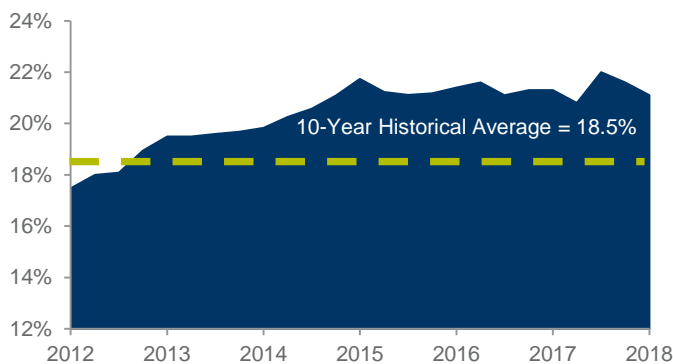
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth throughout the Washington, D.C. metropolitan region remained strong into the third quarter of 2018 adding 46,100 jobs year-to-date (YTD). Professional Business Services led the way accounting for 20,200 jobs YTD and Retail adding 6,000 jobs YTD. Northern Virginia (NoVA) continues to see the highest gains in the D.C. metro adding 26,000 jobs since August of 2017.

Market Overview

The Northern Virginia office market continued to boast strong absorption numbers through the third quarter of 2018. For a fourth consecutive quarter the region has experienced positive net move-ins totaling 156,439 square feet (sf), bringing the year-to-date (YTD) total to 804,567 sf. Strong absorption has helped lower the overall vacancy rate across NoVA by 140 basis points (bps) year-over-year (YOY) to 20.6%. Direct vacancy is down 150 bps YOY to 19.4%.

Leasing activity remained steady with 1.2 million square feet (msf) of new leases signed in the third quarter alone and 5.9 msf YTD. The Air Line Pilots Association signed the largest new lease of the quarter—for 103,711 sf at 7950 Jones Branch Drive—taking one of the few remaining large blocks of space in Tysons Corner. Large-block supply is limited across key submarkets such as the Rosslyn-Ballston Corridor, Reston/Herndon and Tysons Corner, suggesting that developers could soon kick-off construction at several proposed sites in NoVA. Small to mid-size tenants accounted for nearly 11% of new leasing activity during the third quarter, expanding their footprints across NoVA; a total of 125,080 sf of expansions occurred during the quarter. After years of downsizing, government contractors and tech companies are beginning to grow out of their space in search of additional square footage. The largest renewal of the quarter was signed by the GSA for the Drug Enforcement Administration, renewing its 500,000-sf space across two buildings at 600-700 Army Navy Drive in Crystal City.

With demand holding steady, overall average asking rents have increased to \$32.79 per square foot (psf)—up 2.2% YOY. Rents are expected to tick upward as new construction delivers. The increase should be minimal, however, as vacancy remains elevated.

Transaction volume in the third quarter of 2018 was concentrated along the Toll Road in Reston/Herndon as investor interest in the submarket continued to heighten. Seven buildings totaling 1.2 msf traded for \$189,700,000. On average the buildings traded for \$157 psf.

Tysons Corner's skyline continues to evolve with the delivery of Capital One's 975,000-sf tower at the company's expanding headquarters campus, and with construction progressing at Meridian's mixed-use development—The Boro. The 20-story, 446,380-sf office component of the Boro development, Boro Tower, is expected to deliver 65% leased in the first quarter of 2019. Another 77,000 sf of office space atop two stories of retail, dubbed The Loft, will deliver later in 2019. In Reston, Comstock Partners broke ground on the second office tower at its Reston Station development: 1906 Reston Metro Plaza, a 180,000-sf tower. Peterson Companies delivered a 440,000-sf building at 3443 Historic Sully Way, fully leased by a confidential government tenant.

Outlook

Northern Virginia may see additional speculative construction commence as the supply of quality large blocks of Class A space dwindles and several near-term developments already have significant pre-leasing. New construction will continue to outperform as the flight to quality trend endures while vacancy will increase in commodity product. The effects of this trend are leading developers to convert outdated product to multi-family and mixed-use projects which should help keep vacancy rates in check.

MARKETBEAT

Northern Virginia

Office Q3 2018



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Rosslyn	9,009,982	306,939	2,163,731	27.4%	-38,877	-67,816	177,400	0	\$42.82	\$45.33
Courthouse/Clarendon/VA Square	5,692,747	34,982	789,123	14.5%	54,282	78,828	200,191	0	\$42.31	\$43.78
Ballston	7,095,248	115,962	1,733,683	26.1%	26,358	143,799	332,921	187,425	\$40.90	\$42.06
Crystal City/Pentagon City	10,677,069	40,001	2,110,709	20.1%	27,139	138,832	246,156	99,000	\$36.48	\$38.01
Arlington County	32,475,046	497,884	6,797,246	22.5%	68,902	293,643	956,668	286,425	\$ 39.92	\$ 41.34
Old Town	7,991,666	46,555	670,099	9.0%	12,103	4,901	275,704	0	\$34.02	\$36.97
I-395 Corridor	5,936,851	3,430	2,100,795	35.4%	9,093	29,318	90,910	0	\$28.97	\$31.90
Huntington/Eisenhower	2,523,709	40,860	753,097	31.5%	-1,143	-45,278	43,132	0	\$26.45	\$34.25
City of Alexandria	16,452,226	90,845	3,523,991	22.0%	20,053	-11,059	409,746	0	\$ 30.97	\$ 34.50
Inside the Beltway	48,927,272	588,729	10,321,237	22.3%	88,955	282,584	1,366,414	286,425	\$36.91	\$39.04
Annandale/Baileys	1,204,881	12,834	282,216	24.5%	10,100	-1,496	14,068	0	\$26.41	\$30.20
Merrifield/Route 50	6,608,194	68,521	1,260,829	20.1%	19,624	-89,470	273,675	0	\$28.69	\$30.41
Fairfax/Oakton/Vienna	9,509,467	90,735	2,205,230	24.1%	65,106	36,827	269,424	0	\$27.19	\$29.55
Tysons Corner	22,612,250	252,644	4,186,765	19.6%	-33,411	-91,350	1,117,587	589,986	\$31.70	\$36.26
Reston/Herndon	24,585,750	322,914	4,025,206	17.7%	-491,834	1,280	2,043,299	180,000	\$31.67	\$33.01
Route 28 South/Chantilly	9,117,298	178,340	1,222,624	15.4%	475,756	532,429	202,649	240,000	\$26.04	\$27.80
Springfield	3,268,420	9,928	964,288	29.8%	-1,104	31,027	43,169	622,812	\$32.78	\$37.33
Fairfax County	76,906,260	935,916	14,147,158	19.6%	44,237	419,247	3,963,871	1,632,798	\$ 30.11	\$ 32.75
Loudoun County	5,721,195	30,731	1,027,477	18.5%	23,247	102,736	607,246	0	\$ 25.06	\$ 26.96
Outside the Beltway	82,627,455	966,647	15,174,635	19.5%	67,484	521,983	4,571,117	1,632,798	\$29.76	\$32.35
Northern Virginia Totals	131,554,727	1,555,376	25,495,872	20.6%	156,439	804,567	5,937,531	1,919,223	\$32.79	\$35.21

*Rental rates reflect gross asking \$psf/year **Does not include Renewals

Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
600-700 Army Navy Drive	500,000	GSA – Drug Enforcement Administration	Renewal	Crystal City/Pentagon City
7950 Jones Branch Drive	103,711	Air Line Pilots Association	New Lease	Tysons Corner
198 Van Buren Street	58,763	MWAA	Renewal	Reston/Herndon
2355 Dulles Corner Boulevard	52,620	SAP	Renewal	Reston/Herndon

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
11130/11180/11190 Sunrise Valley Drive Campus at Sunrise	254,332	Bridge Investment Group / Grosvenor Americas	\$54,000,000 / \$212	Reston/Herndon
460 Herndon Parkway	206,000	Parmenter LLC / Turnbridge Equities	\$45,000,000 / \$218	Reston/Herndon
209 Madison Street	87,529	Finmarc Management Inc. / JOSS Realty Partners LLC	\$29,500,000 / \$337	Old Town

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