

MARKETBEAT

Northern Virginia

Office Q2 2019



NORTHERN VIRGINIA OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
D.C. Metro Employment	3.3M	3.3M	▲
D.C. Metro Unemployment	3.4%	3.3%	▼
U.S. Unemployment	3.9%	3.6%	▼

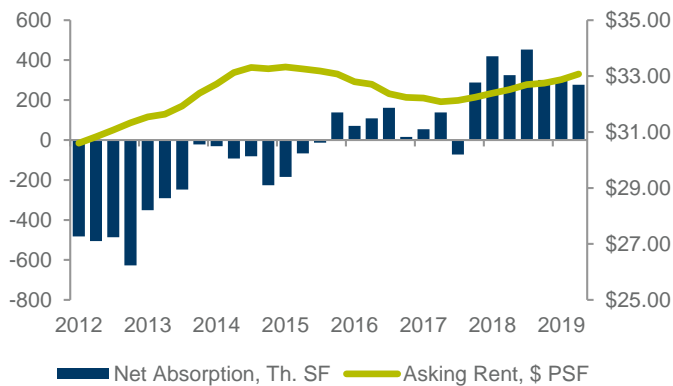
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	20.5%	20.3%	▼
YTD Net Absorption (sf)	688k	591k	■
Under Construction (sf)	2.5M	2.8M	▲
Average Asking Rent*	\$32.69	\$33.48	▲

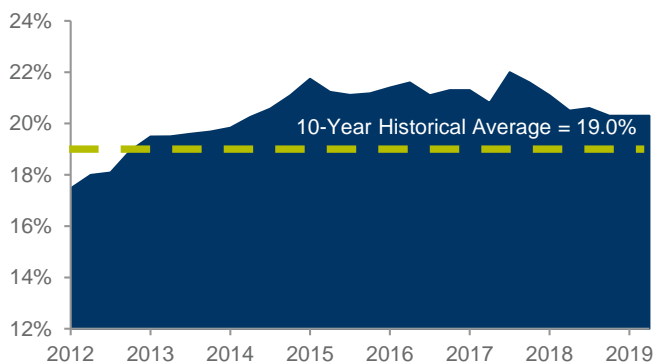
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Year-end 2018 net new job growth in the Washington, DC metropolitan region was revised sharply downward in the second quarter of 2019, falling from the initial reporting of 54,000 new jobs to 36,000. This possibly indicates that the government shutdown of late 2018/early 2019 had a pronounced negative impact and does not bode well for a federal sector that is likely to be faced with increasing gridlock in advance of the 2020 presidential election. This is reminiscent of the "Tea Party Wave" of 2010 in which a conservative House of Representatives came into the majority that was diametrically opposed to the incumbent executive branch and the friction between the two branches mired the federal government in shutdowns, budget sequestration and gridlock. This ultimately resulted in a crisis of confidence and clarity and the region lost over 27,000 office-using jobs by 2014. While the headline job growth statistics in the region have slowed in late 2018/early 2019, the headline economic indicators remain relatively healthy. The labor markets remain very tight with a regional unemployment rate of 3.3% and year-to-date, the DC region has added 20,800 jobs led by gains in Professional and Business Services, Leisure and Hospitality and Retail (6,500, 5,800 and 3,100 jobs, respectively).

Market Overview

The Northern Virginia office market closed the second quarter of 2019 with 236,485 square feet (sf) of positive absorption, bringing the year-to-date (YTD) total to 591,208 sf. Software company, Appian, was the major contributor to this figure with its move into 205,027 sf at Valo Park (7950 Jones Branch Drive). Healthy absorption YTD has helped to bring vacancy down 20 basis points (bps) year-over-year (YOY), ending the second quarter at 20.3% after spiking a bit in 2018.

From a leasing standpoint, activity remained robust with 2,446,370 sf of new leases signed during the second quarter of 2019. This is well above the historical quarterly average of 1.4 million square feet (msf). YTD new leasing totaled 4.4 msf at the close of the quarter—slightly below the total a year ago, although note that 2018 was a record year. Amazon signed the first leases for its future headquarters in National Landing, taking a total of 585,285 sf across four buildings. The largest lease of the quarter was signed by a confidential cloud computing company for the entire 268,240-sf building at 13820 Sunrise Valley Drive. Two additional leases above 100,000 sf closed in the second quarter as large blocks of quality space continue to disappear in the region. Coworking continued its expansion across the Washington, DC Metro, accounting for a total of 230,000 additional sf signed in NoVA during the quarter.

Despite a lack of large block availability in Tysons Corner, no new construction has broken ground as developers wait for pre-leasing to offset the rising construction costs. Tysons Corner will see The Loft at Meridian's Boro development deliver in the third quarter of 2019 with 75,000 sf of office space, 50,000 sf of which is leased to coworking provider Spaces. In Reston/Herndon, increased activity at Comstock's Reston Station has led to construction breaking ground on the third office building at 1902 Reston Metro Plaza. The 260,000-sf building joins the 180,000-sf building under construction at 1906 Reston Metro Plaza. While no leases are fully executed at either property, deals are expected to close by the end of the year. Asking rents have continued to tick upward due to new construction and steady demand. The average overall asking rent in NoVA at the close of the second quarter of 2019 was \$33.48 per square foot (psf) on a full-service basis, up \$0.79 YOY. For Class A space the overall asking rent was up \$0.75 YOY to \$36.15 psf, while Class B rents were down \$0.24 YOY to \$30.29 psf.

Outlook

Flight to quality continues to drive occupier preferences in Northern Virginia as technology and co-working firms expand throughout the region. New construction should continue to outperform, while increased vacancy will likely be concentrated in commodity product. In addition, there are some initial indications that tightening and rising rents in core submarkets including Tysons, Reston and Herndon, are also impacting secondary markets such as Merrifield which has been experiencing increased activity.

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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	182,890	1,932,194	23.7%	140,168	285,590	165,837	0	\$42.40	\$45.84
Courthouse/Clarendon/VA Square	5,692,747	38,027	884,687	16.2%	-64,113	-84,790	83,408	0	\$41.76	\$42.35
Ballston	7,095,248	161,054	1,659,153	25.7%	-27,223	19,133	319,656	187,425	\$39.84	\$40.33
Crystal City/Pentagon City	10,776,069	17,767	2,006,753	18.8%	-42,606	-98,312	901,456	0	\$37.42	\$39.17
Arlington County	32,574,046	399,738	6,500,744	21.2%	6,226	121,621	1,470,357	187,425	\$39.82	\$41.15
Old Town	16,790,226	52,670	673,974	9.1%	31,754	61,623	177,663	0	\$35.10	\$37.84
I-395 Corridor	5,936,851	4,830	2,148,880	36.3%	45,782	65,008	91,235	0	\$29.86	\$32.66
Huntington/Eisenhower	2,861,709	32,007	1,049,147	37.8%	7,702	16,806	23,350	0	\$37.47	\$42.23
City of Alexandria	16,790,226	89,507	3,872,001	23.6%	85,238	143,437	292,248	0	\$33.39	\$36.86
Inside the Beltway	49,364,272	489,245	10,372,745	22.0%	91,464	265,058	1,762,605	187,425	\$37.63	\$39.69
Annandale/Baileys	1,204,881	0	247,808	20.6%	13,863	17,877	18,190	0	\$26.78	\$31.50
Merrifield/Route 50	6,852,558	83,445	1,337,363	20.7%	23,910	-16,801	201,999	0	\$29.75	\$32.66
Fairfax/Oakton/Vienna	9,661,974	91,079	2,350,272	25.3%	146	41,854	128,219	0	\$26.95	\$30.10
Tysons Corner	23,022,630	268,973	4,233,395	19.6%	180,815	392,582	728,704	143,606	\$34.34	\$39.44
Reston/Herndon	25,334,737	301,219	4,184,729	17.7%	-184,122	-231,455	1,095,096	1,720,000	\$31.86	\$33.66
Route 28 South/Chantilly	9,117,298	46,131	1,099,103	12.6%	78,918	79,309	214,398	125,000	\$26.37	\$27.73
Springfield	3,187,808	6,355	832,637	26.3%	63,713	78,718	69,312	622,812	\$33.00	\$37.67
Fairfax County	78,381,886	797,202	14,285,307	19.2%	177,243	362,084	2,455,918	2,611,418	\$31.16	\$34.36
Loudoun County	5,842,195	14,491	1,116,111	19.4%	-32,222	-35,934	162,583	0	\$26.13	\$28.22
Outside the Beltway	84,224,081	811,693	15,401,418	19.2%	145,021	326,150	2,618,501	2,611,418	\$30.81	\$33.93
Northern Virginia Totals	133,588,353	1,300,938	25,774,163	20.3%	236,485	591,208	4,381,106	2,798,843	\$33.48	\$36.15

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

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1770 Crystal Drive/ 1800 Bell Street S/ 241 18 th Street S/ 2345 Crystal Drive	585,285	Amazon	New Lease	Crystal City/Pentagon City
13820 Sunrise Valley Drive	268,240	Confidential	New Lease	Reston/Herndon
1550 Westbranch Drive	151,949	Freddie Mac	New Lease	Tysons Corner
13530 Dulles Technology Drive	106,737	Constellis	New Lease	Reston/Herndon

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
5001 Eisenhower Avenue	611,047	Spaulding & Slye, Prudential RE Investors / StonebridgeCarras	\$43,000,000 / \$70	Huntington/Eisenhower
Centerpointe I & II (4000/4050 Legato Road)	421,859	Alony Hetz / Manulife US REIT	\$122,000,000 / \$289	Fairfax/Oakton/Vienna
Presidential Tower (2550 S Clark Street)	332,929	Beacon Capital Partners / Starwood Capital	\$123,215,000 / \$370	Crystal City/Pentagon City

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