

# MARKETBEAT

## Northern Virginia

Office Q4 2018



### NORTHERN VIRGINIA OFFICE

#### Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
D.C. Metro Employment	3.3M	3.3M	▲
D.C. Metro Unemployment	3.6%	3.3%	■
U.S. Unemployment	4.1%	3.7%	▼

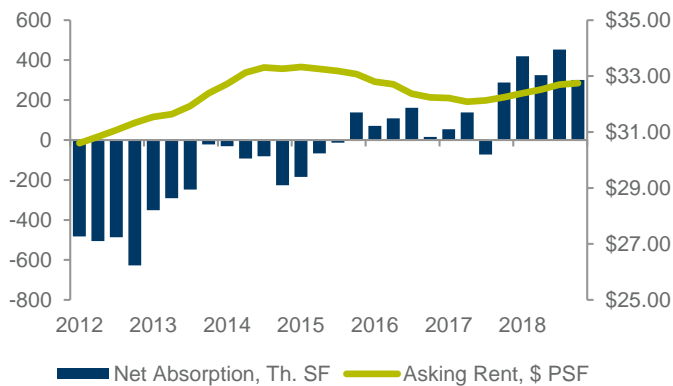
#### Market Indicators (Overall, All Classes)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	21.6%	20.3%	▲
YTD Net Absorption (sf)	1.1M	1.2M	■
Under Construction (sf)	2.5M	2.1M	▲
Average Asking Rent*	\$32.68	\$32.87	▲

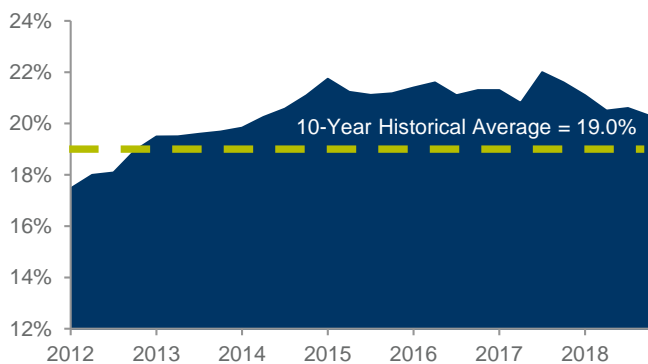
\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent

##### 4-QTR TRAILING AVERAGE



#### Overall Vacancy



### Economy

For a fourth consecutive year, annual job growth in the Washington, DC Metro region surpassed 50,000 jobs, well above the historical annual average of 38,000 jobs. Northern Virginia accounted for over 20,000 of those jobs, 40% of the total. Northern Virginia also led the region in office-using job creation with 10,500 of the DC Metro's 18,600 office-using jobs (56%) with strong gains in Professional and Business Services and Financial sector employment (8,600 and 2,000 net new positions, respectively).

### Market Overview

The Northern Virginia (NoVA) office market made headlines during the fourth quarter of 2018: Amazon announced it will establish a regional headquarters in the Crystal City/Pentagon City submarket. The eCommerce giant has immediate plans to lease 500,000 square feet (sf), build up to 4.1 million square feet (msf) of new office space and eventually add 25,000 non-farm payrolls to NoVA. The announcement came as the region registered strong positive absorption throughout the jurisdiction, totaling 404,533 sf for the fourth quarter and 1.2 msf for 2018 – the strongest yearly net absorption total since 2008. Relocations from the District of Columbia and headquarter relocations from markets outside the region contributed to the fourth quarter's figure. Positive absorption contributed to vacancy declining 130 basis points (bps) year-over-year (YOY) to 20.3%, close to the 10-year historical average of 19.0%. Direct vacancy for the region stands at 19.2%, down 100 bps YOY.

New leasing activity for 2018 totaled nearly 7.8 msf, the highest level since 2008. Large users continued to flee to new construction. KPMG signed the largest new lease of the fourth quarter of 2018, planning to relocate into 168,000 sf at Meridian's 446,000-sf office tower—The Boro—currently under construction in Tysons Corner. BAE Systems signed the second largest lease of the quarter for 120,000 sf and will relocate their headquarters to 2941 Fairview Park Drive in Merrifield. Cybersecurity firm IDEMIA will relocate its headquarters from Massachusetts to One Freedom Square (11951 Freedom Square) taking 18,000 sf in the Reston submarket.

The only new construction to deliver during the fourth quarter of 2018 was the new headquarters for the National Industries for the Blind at 3000 Potomac Avenue in the Potomac Yards neighborhood—the same area where Amazon plans to develop a portion of its new headquarters. Construction began on Leidos' future headquarters at 1750 Presidents Street in Reston. Despite a lack of quality existing large blocks in key submarkets, no new speculative construction broke ground in the fourth quarter. Developers continue to hold out for significant pre-leasing before moving forward with speculative development across Northern Virginia. Asking rents ticked upward slightly, an increase of just \$0.19 YOY to \$32.87 per square foot on a full-service basis.

### Outlook

The Washington, DC Metro region's reputation as a destination for technology firms is improving, as Northern Virginia continues to capture notable headquarter relocations. The full impact on Northern Virginia's office market remains to be seen, but news of the Amazon setting up shop in NoVA will bring with it high-paying employment and a boost to the service industry.

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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	222,093	2,150,710	26.3%	97,867	30,051	416,763	0	\$41.65	\$43.05
Courthouse/Clarendon/VA Square	5,692,747	26,219	788,855	14.3%	40,095	87,859	242,078	0	\$42.49	\$43.77
Ballston	7,095,248	132,760	1,677,797	25.5%	39,088	182,887	434,266	187,425	\$40.44	\$41.30
Crystal City/Pentagon City	10,776,069	22,762	1,988,558	18.7%	182,078	356,002	322,648	0	\$37.99	\$40.48
<b>Arlington County</b>	<b>32,574,046</b>	<b>403,834</b>	<b>6,605,920</b>	<b>21.5%</b>	<b>359,128</b>	<b>656,799</b>	<b>1,415,755</b>	<b>187,425</b>	<b>\$40.14</b>	<b>\$41.77</b>
Old Town	7,991,666	72,024	716,243	9.9%	-51,747	-46,846	314,619	0	\$33.76	\$35.99
I-395 Corridor	5,936,851	7,430	2,145,817	36.3%	-3,184	24,180	110,151	0	\$28.05	\$29.99
Huntington/Eisenhower	2,861,709	38,123	1,059,837	38.4%	33,997	-11,281	50,860	0	\$37.30	\$42.11
<b>City of Alexandria</b>	<b>16,790,226</b>	<b>117,577</b>	<b>3,921,897</b>	<b>24.1%</b>	<b>-20,934</b>	<b>-33,947</b>	<b>475,630</b>	<b>0</b>	<b>\$32.27</b>	<b>\$35.59</b>
<b>Inside the Beltway</b>	<b>49,364,272</b>	<b>521,411</b>	<b>10,527,817</b>	<b>22.4%</b>	<b>338,194</b>	<b>622,852</b>	<b>1,891,385</b>	<b>187,425</b>	<b>\$37.46</b>	<b>\$39.67</b>
Annandale/Baileys	1,204,881	12,584	253,101	22.1%	7,365	5,869	22,654	0	\$25.93	\$29.86
Merrifield/Route 50	6,725,259	69,992	1,207,331	19.0%	210,254	95,784	422,217	0	\$28.59	\$31.09
Fairfax/Oakton/Vienna	9,509,467	100,760	2,359,018	25.9%	-171,353	-126,986	357,498	0	\$26.84	\$29.59
Tysons Corner	22,576,250	280,185	4,166,430	19.7%	-25,343	-82,556	1,635,720	589,986	\$32.71	\$37.45
Reston/Herndon	25,334,737	397,324	3,956,948	17.2%	30,386	6,572	2,416,525	460,000	\$31.48	\$33.07
Route 28 South/Chantilly	9,117,298	62,592	1,208,701	13.9%	6,021	538,450	315,094	240,000	\$26.50	\$27.75
Springfield	3,268,420	9,928	741,278	23.0%	1,694	32,721	74,864	622,812	\$32.29	\$37.33
<b>Fairfax County</b>	<b>77,736,312</b>	<b>933,365</b>	<b>13,892,807</b>	<b>19.1%</b>	<b>59,024</b>	<b>469,854</b>	<b>5,244,572</b>	<b>1,912,798</b>	<b>\$30.31</b>	<b>\$33.21</b>
<b>Loudoun County</b>	<b>5,721,195</b>	<b>32,631</b>	<b>1,018,262</b>	<b>18.4%</b>	<b>7,315</b>	<b>110,051</b>	<b>662,429</b>	<b>0</b>	<b>\$24.85</b>	<b>\$26.60</b>
<b>Outside the Beltway</b>	<b>83,457,507</b>	<b>965,996</b>	<b>14,911,069</b>	<b>19.1%</b>	<b>66,339</b>	<b>579,905</b>	<b>5,907,001</b>	<b>1,912,798</b>	<b>\$29.94</b>	<b>\$32.76</b>
<b>Northern Virginia Totals</b>	<b>132,821,779</b>	<b>1,487,407</b>	<b>25,438,886</b>	<b>20.3%</b>	<b>404,533</b>	<b>1,202,757</b>	<b>7,798,386</b>	<b>2,100,223</b>	<b>\$32.87</b>	<b>\$35.46</b>

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

### Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2800 South Randolph Street	190,546	GSA – U.S. Patent & Trademark Office	Renewal	I-395 Corridor
8350 Broad Street – Boro Tower	168,000	KPMG	New Lease	Tysons Corner
2941 Fairview Park Drive	120,000	BAE Systems, Inc.	New Lease	Merrifield/Route 50
1735 North Lynn Street	115,747	U.S. Postal Service	Renewal	Rosslyn

### Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER / BUYER	PRICE / \$PSF	SUBMARKET
1550/1560 Wilson Boulevard	283,278	Brookfield / Cogent Communications	\$102,500,000 / \$362	Rosslyn
2800 S Shirlington Road	206,200	Choi Companies / Monday Properties	\$40,800,000 / \$198	I-395 Corridor
1420 Beverly Road	46,000	General Assets, Inc / Minshall Stewart Properties	\$12,700,000 / \$276	Tysons Corner

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