MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Northern Virginia

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Technology sector causes uptick in leasing activity in Northern Virginia relative to a year ago

In the Northern Virginia office market, leasing activity dropped 15.4% from its post-pandemic high last quarter of 2.7 million square feet (msf) to 2.3 msf this quarter. This small decrease in leasing activity is slightly below the 5-year quarterly average of 2.5 msf. Nevertheless, the market continues to show signs of strength despite a possible looming economic downturn, largely due to increased leasing activity from the technology, advertising, media and information (TAMI) sector. In Q3, TAMI deals comprised 20.1% of all transactions, surpassing all other industry types for the quarter except real estate, which had the largest lease of the quarter. The largest transaction of the quarter was a renewal for Hilton Worldwide for 220,000 square feet (sf) at 7930 Jones Branch Drive in Tysons Corner.

Overall availability holds steady despite rise in sublease supply

The availability rate for the Northern Virginia market remained elevated in Q3 ending the quarter at 24.4%. There was only a minor decrease of 10 bps in availability from last quarter's rate of 24.5%. In 2022, the market's availability has averaged the highest rate ever as a result of the record high amount of sublease space currently on the market. The available sublease supply has increased every quarter since the start of the pandemic and is now at a new peak this quarter at 5.5 msf. This dramatic 139% increase in sublease supply has been one of the major reasons the Northern Virginia market continues to be tenant-favorable with an abundance of readily accessible space for occupiers to take.

Rental rate growth remains sluggish while concessions jump in value

After a pause on rental rate increases during the height of the pandemic, rental rates have slowly and steadily increased by an average of 0.5% each quarter to $35.41 per square foot (psf) in Q3. This rental rate increase, largely driven by new trophy Class A buildings, has been achievable due to the hefty concession packages being offered by landlords in order to keep face rents high. As a result, newer long-term Class A lease transactions now receive on average $110.00 psf in tenant improvement allowances and 19 months of free rent, totaling $177.00 psf in value. Expect these high concessions to continue as landlords aggressively chase occupancy.

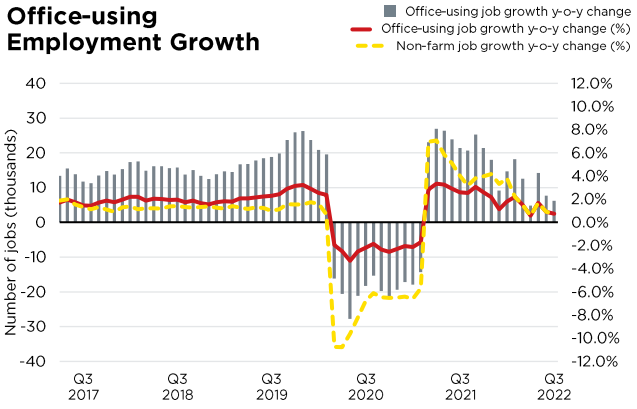
Outlook

- Hybrid remote work policy is still evolving, but flexibility regarding both lease terms and build-out, is at the forefront of occupiers' minds as they evaluate their workplaces and how to retain employees
- Occupiers have ample options when looking for space as the amount of available sublease space in the market continues to surpass all time highs putting market dynamics fully tenant-favorable
- A significant rise in free rent this quarter is just one of the many concessions landlords are offering in their incentive packages in order to keep face rents high and entice tenants

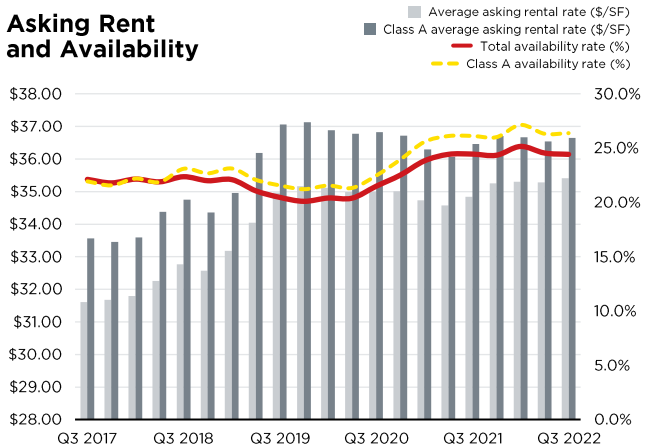
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	151.0 MSF	151.3 MSF	▲
Availability Rate	24.4%	24.4%	◀▶
Asking Rental Rate*	$34.84	$35.41	▲
Class A Asking Rental Rate*	$36.46	$36.65	▲
Quarterly Leasing Activity	2.1 MSF	2.3 MSF	▲
Available Sublease Space	4.2 MSF	5.5 MSF	▲

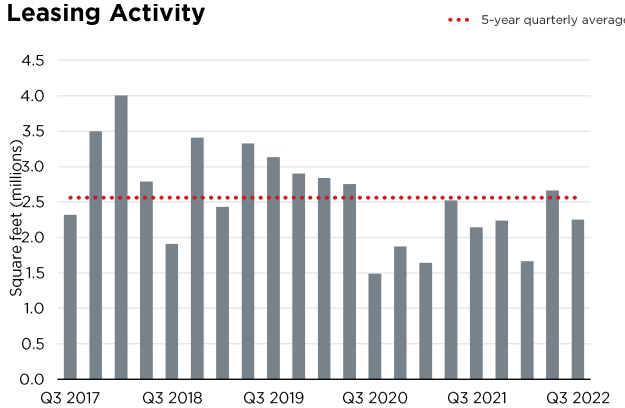
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

3.6%
Northern Virginia unemployment rate (as of Aug. 2022)

0.7%
Office-using employment growth year-over-year (as of Aug 2022)

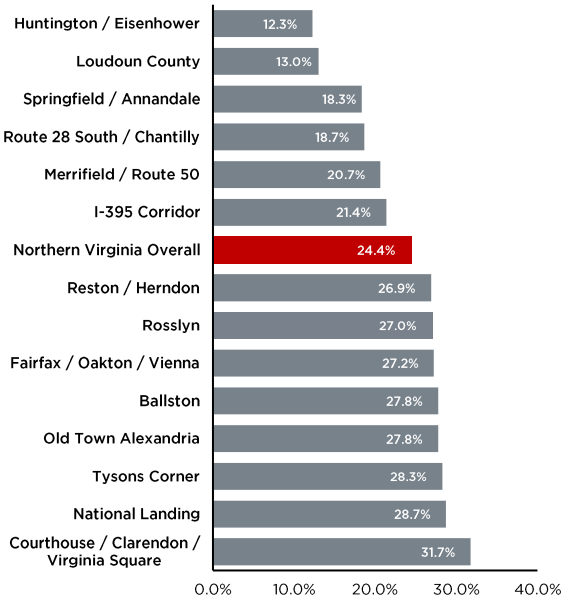
0.7 msf
Office space currently under construction

Top Transactions

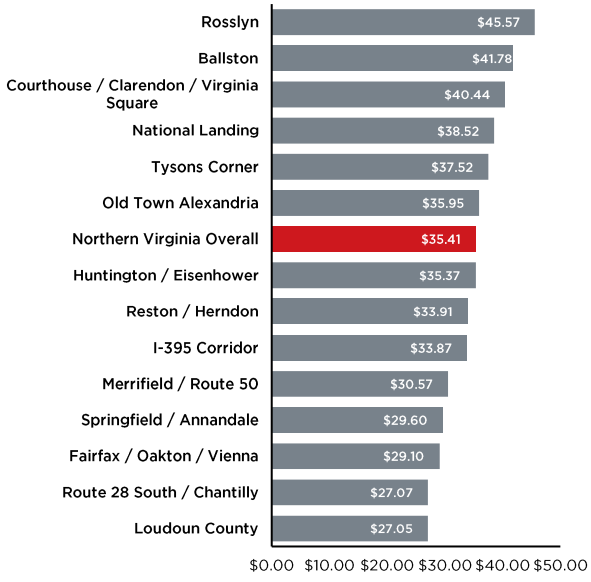
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Hilton Worldwide	220,000	7930 Jones Branch Drive	Renewal	Tysons Corner	Real Estate
Boeing	118,780	12701 Fair Lakes Circle	Renewal	Fairfax Center	Manufacturing
Maxar Technologies	99,659	2325 Dulles Corner Boulevard	New Location	Herndon	TAMI
GSA - Department Of State	92,264	1700 N Moore Street	Renewal	Rosslyn	Government
Expedition Technology	64,000	13865 Sunrise Valley Drive	Renewal and Expansion	Herndon	TAMI
Kimley-Horn and Associates, Inc.	56,710	11400 Commerce Park Drive	Renewal	Reston	Engineering
ePlus Technology Inc	55,880	13595 Dulles Technology Drive	Renewal	Herndon	TAMI
TriSept Corporation	51,254	15036 Conference Center Drive	Renewal and Expansion	Route 28 Corridor South	Business Services
Raytheon BBN Technologies	43,520	1300 N 17th Street	Renewal	Rosslyn	Business Services
Five Guys Enterprises	41,340	1940 Duke Street	New Location	Old Town Alexandria	Retail

Source: Savills Research

Availability Rate Comparison (%)
Northern Virginia Submarkets



Rental Rate Comparison ($/SF)
Northern Virginia Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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