



Ongoing pandemic disruption begins to weaken Northern Virginia's resiliency

The effects of the COVID-19 pandemic have finally begun to shake the resilient Northern Virginia office market with availability rising 110 basis points (bps) to 21.5% in Q3. This increase in availability was partially due to more than 500,000 square feet (sf) of sublease space being added to the market over the quarter. Close to 3.0 million square feet (msf) of sublease space is now available as organizations reevaluate occupancy requirements and focus on reducing real estate costs. A prime example of this change in needs is Walmart's surprise decision to sublease the entire 162,357-sf building at 2245 Monroe Street in Herndon that they just leased in Q2 in order to continue working remotely. While remote work has worked better than expected thus far through the pandemic, company culture and innovation can be negatively impacted, and occupiers must decide what is sustainable for them before signing any long-term commitments.

Demand drops 46% over the quarter as transactions that started prior to the pandemic begin to wane

In Q3, 1.5 msf was leased – the lowest quarterly volume seen in almost four years – down from 2.8 msf in Q2. Occupiers who had started the leasing process prior to the pandemic have begun to taper off creating a decline in demand. This is certainly a pullback compared to long-term quarterly averages, but far less drastic than the “pandemic pause” many other major markets are experiencing. The stability of government sector tenants (which accounted for 33.1% of leasing activity) and the professional services sector which is largely made up of government contractors (20.5% of leasing activity) kept activity sustained. Renewals comprised 72.4% of transactions this quarter, a popular option for tenants looking to extend in place until more economic and business clarity is achieved.

Rising concessions reflect weakening market fundamentals and accelerating tenant favorability

Overall asking rents held firm over the year, ending the third quarter at \$35.00 per square foot (psf) almost unchanged from Q3 2019 (\$34.97 psf). Since Northern Virginia has seen little change to market fundamentals prior to Q3, landlords have not been pressured by the marketplace to reprice their listings. While asking rents may not reflect the changing market, concessions are the best evidence of softening. Concessions for new, Class A, long-term transactions now average \$92.00 psf in tenant improvement allowance and 14 months of free rent, resulting in an incentive package with a total value of \$140.00 psf. As the temperature of the market begins to shift, landlords are expected to become more accommodating as they look to secure their share of a shrunken tenant base willing to sign leases in the current environment.

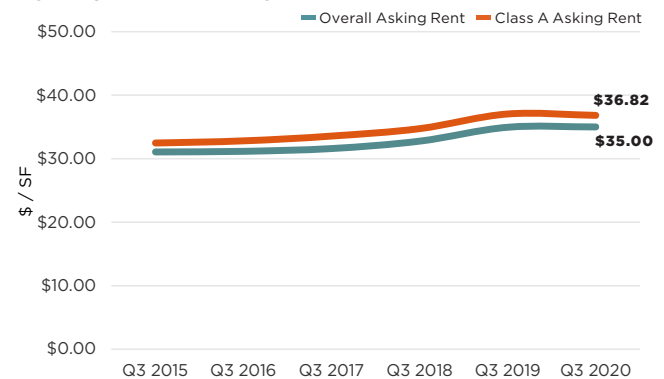
Outlook

- While tenants are focused on bottom lines (of which a large part is their real estate obligations), they will likely shed additional space in the coming quarters causing availability to continue to climb
- Until there is more vaccine certainty and confidence in the safety of returning to the workplace, leasing demand will likely be tepid
- Softening market conditions caused by a supply and demand imbalance will result in increased tenant leverage to secure favorable deal terms and generous concessions

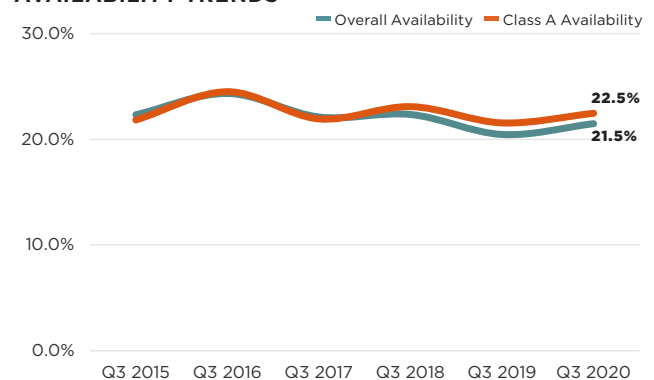
KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	150.9 MSF	151.2 MSF	▲
Availability Rate	20.5%	21.5%	▲
Asking Rental Rate	\$34.97	\$35.00	▲
Class A Asking Rental Rate	\$37.06	\$36.82	▼
Quarterly Leasing Activity	3.1 MSF	1.5 MSF	▼

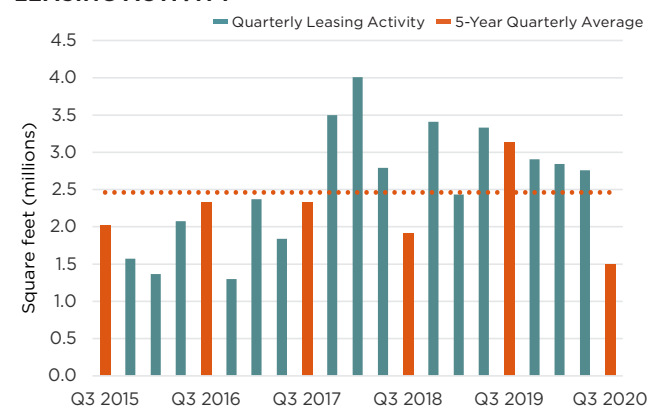
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

85.1%

of major transactions were **renewals** by square footage

38.4%

of large transactions occurred in the **Route 28 South / Chantilly** submarket by square footage

53.6%

Government sector tenants represented 53.6% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
United States Postal Service (USPS)	115,747	1735 N Lynn Street	Renewal	Rosslyn	Government
GSA - Customs and Border Patrol	92,807	1801 N Beauregard Street	Renewal	I-395 Corridor	Government
The Aerospace Corporation	88,094	4851 Stonecroft Boulevard	Renewal	Route 28 South / Chantilly	Non-profit
General Dynamics Information Technology, Inc.	84,652	14700 Lee Road	Renewal	Route 28 South / Chantilly	Professional Services
GSA - US Immigration and Customs Enforcement (ICE)	67,549	1953 Gallows Road	New Location	Tysons Corner	Government
Clarabridge	51,436	11400 Commerce Park Drive	Renewal	Reston / Herndon	TAMI
The Teaching Company	49,529	4840 Westfields Boulevard	Renewal	Route 28 South / Chantilly	Education
GSA - Department of Homeland Security (DHS)	45,747	1310 N Courthouse Road	Renewal	Courthouse / Clarendon / Virginia Square	Government
Nodal Exchange	29,745	1919 Gallows Road	Expansion	Tysons Corner	Professional Services
Transportation Security Administration (TSA)	29,101	14420 Albemarle Point Place	Renewal	Route 28 South / Chantilly	Government

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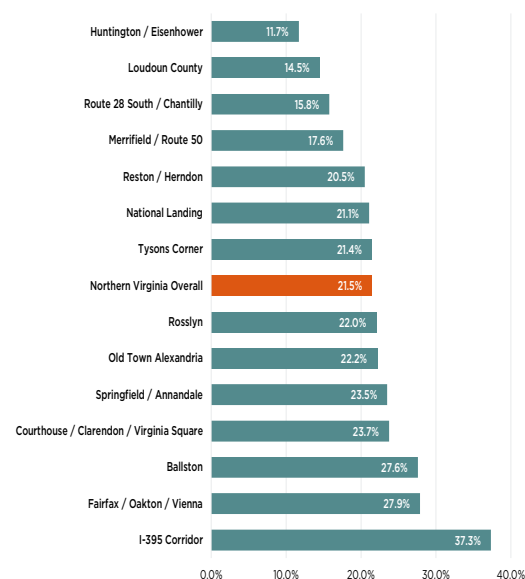
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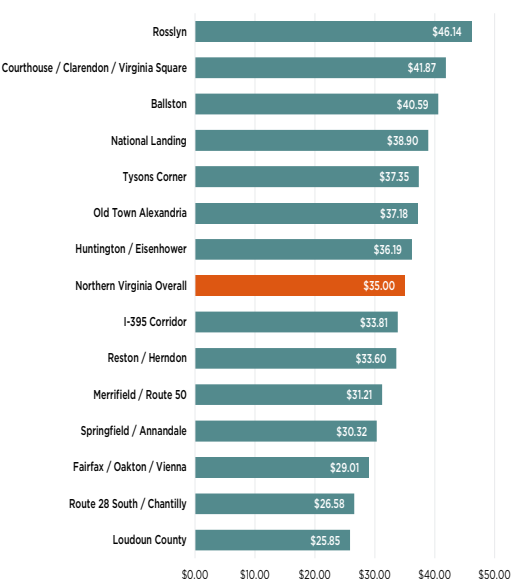
AVAILABILITY RATE COMPARISON

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 (psf). 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.

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