

## COVID-19 uncertainty will test Northern Virginia market fundamentals

The COVID-19 crisis rapidly swept the globe forcing the U.S. to begin taking precautions, and by March 30th, Governor Ralph Northam of Virginia issued a 'stay-at-home' order for the state. While these unforeseen circumstances have resulted in an economic downturn without a clear trajectory, the underlying strengths of the Northern Virginia office market should provide some cushion and sustained leasing activity. The market benefits from the presence of the federal government and its related sectors, in addition to legal, education and medical occupiers, which insulate the region compared to other markets. While the duration that social distancing requirements will be in place is unknown, an economic interruption may create opportunities for tenants in providing additional space options and an increase to already generous concessions.

### Pandemic threatens to overturn a strong start to leasing in 2020

In Q1, Northern Virginia recorded 2.8 million square feet (msf) of leasing activity, well above the five-year average of 2.4 msf. The greatest demand came from the professional services sector – largely made up of government contractors – which was responsible for 37.8% of activity. This was closely followed by the technology, advertising, media and information (TAMI) sector at 33.7%, which has been a growing industry in the market in recent years due to the highly educated workforce in the area. The top transaction of the quarter was completed by Amazon who took another full-building lease in National Landing at 2100 Crystal Drive – bringing the total amount now leased by Amazon in National Landing to just under 1.0 msf (in addition to space owned and under development).

### Market fundamentals steady ahead of economic disruption

Prior to COVID-19, overall asking rent has been gradually increasing since Q1 2017 when it was \$31.09 per square foot (psf) – by Q1 2020 it increased 12.9% to \$35.11 psf. This upward pressure on asking rents has been a result of tightening in availability that occurred over the same three-year period and brought availability down 230 basis points (bps) from 22.7% in Q1 2017 to 20.4% in Q1 2020. This trend may see some reversal as transaction volume will likely decline in the near term. Some occupiers may hold off on signing new leases while they try to assess the full impact on their operations, and how that may translate into near- and long-term space needs.

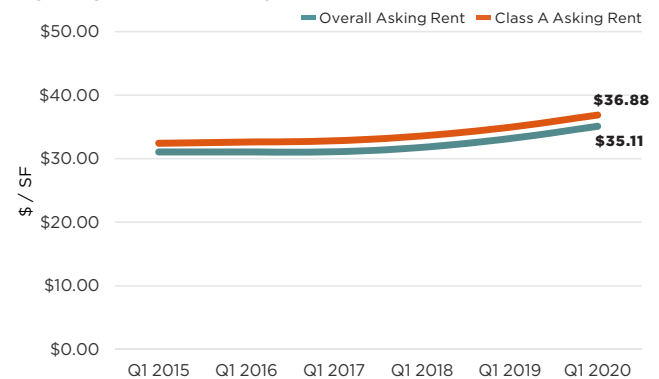
### Outlook

- The Northern Virginia market is already skewed tenant favorable, a decrease in leasing activity will only heighten that favorability, particularly in the case of concessions
- Proposed development projects that have yet to secure an anchor tenant and begin construction will likely be put on hold as developers wait for more economic and office market clarity
- The COVID-19 crisis may persuade occupiers to rethink popular densification trends as personal health and social distancing is now top of mind for businesses

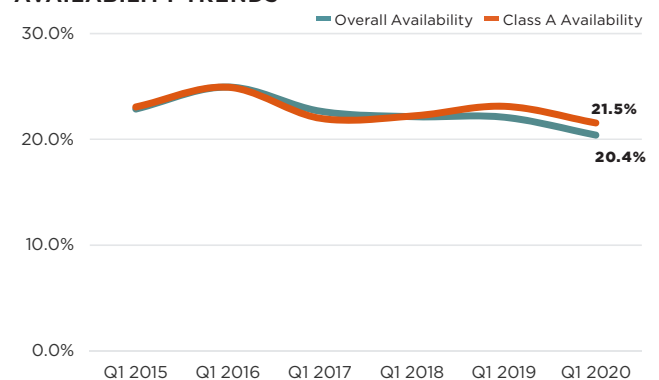
### KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	149.8 MSF	<b>150.9 MSF</b>	▲
Availability Rate	22.1%	<b>20.4%</b>	▼
Asking Rental Rate	\$33.18	<b>\$35.11</b>	▲
Class A Asking Rental Rate	\$34.96	<b>\$36.88</b>	▲
Quarterly Leasing Activity	2.4 MSF	<b>2.8 MSF</b>	▲

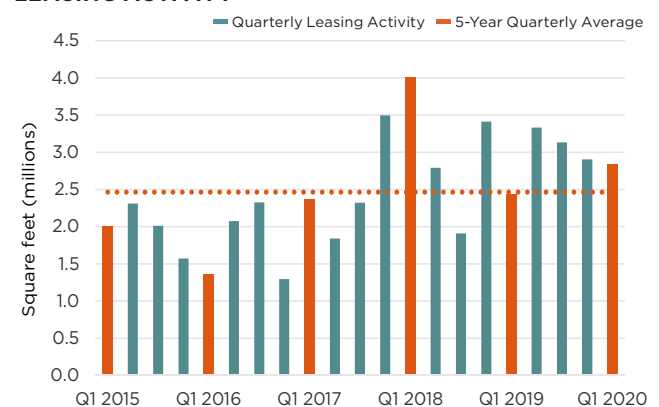
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

52.8%

of major transactions were **renewals**

45.5%

of large transactions occurred in the **Reston / Herndon** submarket

43.2%

**TAMI sector tenants** represented 43.2% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Amazon	272,000	2100 Crystal Drive	New Location	National Landing	TAMI
Bechtel	256,466	12011 Sunset Hills Road	Renewal	Reston / Herndon	Professional Services
Booz Allen Hamilton, Inc	125,556	575 Herndon Parkway	Extension	Reston / Herndon	Professional Services
GSA - United States Coast Guard	88,736	4200 Wilson Boulevard	Renewal	Ballston	Government
Airlines Reporting Corporation	78,926	3000 Wilson Boulevard	Renewal and Expansion	Courthouse / Clarendon / Virginia Square	TAMI
OneWeb	71,834	1785 Greensboro Station Place	Renewal	Tysons Corner	TAMI
Accenture	66,324	12018 Sunrise Valley Drive	Renewal	Reston / Herndon	Professional Services
VMware	53,512	12100 Sunset Hills Road	Renewal	Reston / Herndon	TAMI
GSA - Bureau of Diplomatic Security Services	45,360	2222 Gallows Road	Renewal	Tysons Corner	Government
GSA - Department of Defense	44,989	2800 Crystal Drive	New Location	National Landing	Government

Source Savills Research

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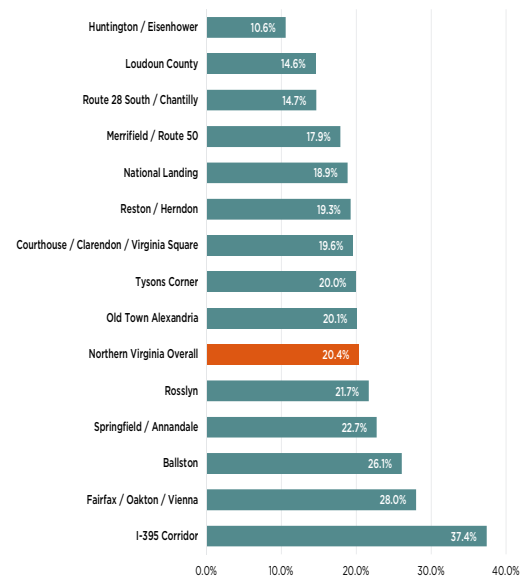
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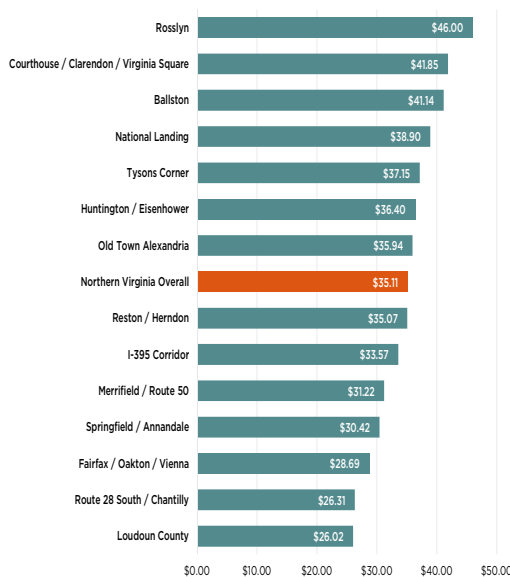
AVAILABILITY RATE COMPARISON

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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