



Leasing nearly doubles over the quarter with government contractors active

Second-quarter leasing activity totaled 2.5 million square feet (msf), on par with the five-year-quarterly average, and nearly double the volume seen in Q1 (1.6 msf). The largest transaction of the quarter - accounting for 20.6% of volume alone - was Raytheon's renewal of 521,366 square feet (sf) across 22110, 22260 and 22270 Pacific Boulevard in Route 28 Corridor North. Including this lease, activity from the professional services sector (primarily government contractors) comprised 52.0% of leasing volume. While an increase in transaction activity will help to provide some market stabilization, Northern Virginia needs net new demand to reduce the extensive oversupply of space. The technology, advertising, media and information (TAMI) sector has been the primary source of new growth throughout the pandemic, but accounted for just 9.3% of activity in Q2.

Growing sublease inventory exacerbates supply-demand imbalance

With pandemic demand (prior to this quarter) well-below market norms, availability keeps soaring and hit 24.4% in Q2, up from 20.4% one year ago. The market's rapidly increasing sublease supply has knocked dynamics even further off kilter. Sublease availability climbed from 3.7 msf in Q1 to 4.1 msf in Q2. This is the most sublease space available since the effects of BRAC and Sequestration drove sublease supply up to a high of 4.3 msf in 2013. It took three years for sublease inventory to fall back below 4.0 msf at that time. Tenants have had ample direct options, even prior to the pandemic, but now also face a surplus of sublease space which usually comes heavily discounted, built-out for immediate occupancy, and is generally shorter in term, which may provide more flexibility.

Even as the competition for tenants grows fiercer, landlords remain reluctant to reprice listings

The market's overall average asking rent has seen little fluctuation despite pandemic challenges. Now at \$34.57 per square foot (psf), down a mere 1.2% year over year. Class A averages held firm as well, down just 1.9% over the year to \$36.07 psf. Asking rents, however, are a poor reflection of current landlord-tenant dynamics. The pandemic has forced owners to recalibrate leasing strategies, with most open to creative and flexible lease structures to secure and retain tenants at this time. Concessions remain the primary incentive offered and new, long-term, Class A leases receive on average \$114.00 psf in tenant improvement allowances and 14 months of free rent, totaling \$162.00 psf in total value - up 11.7% since the start of the pandemic.

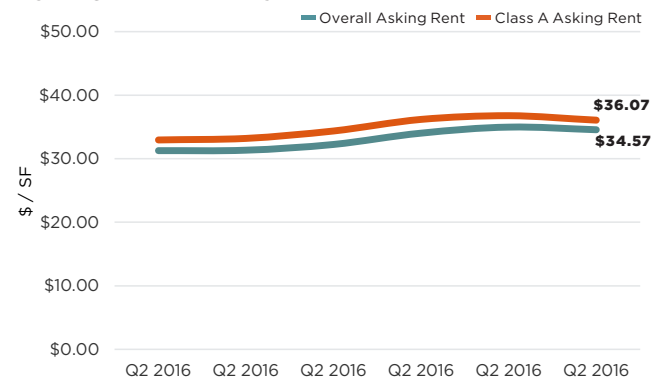
Outlook

- Northern Virginia has benefited from the growth of technology organizations within the region, but the market will still need to draw many more new market entrants to reduce the surplus of space available
- Abundant space options will spur a flight-to-quality environment with tenants seeking prime, amenitized buildings that could help to entice employees to return to the workplace
- Many organizations have set Labor Day as a turning point for office re-occupancy plans and the real estate community will be watching closely for longer term implications on space demand and future workplace trends

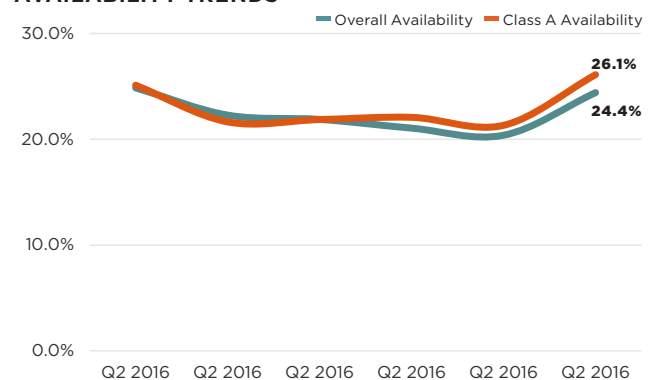
KEY STATISTICS

	Q2 2020	Q2 2021	y-o-y Change
Inventory	151.1 MSF	151.1 MSF	↔
Availability Rate	20.4%	24.4%	▲
Asking Rental Rate	\$34.99	\$34.57	▼
Class A Asking Rental Rate	\$36.77	\$36.07	▼
Quarterly Leasing Activity	2.8 MSF	2.5 MSF	▼

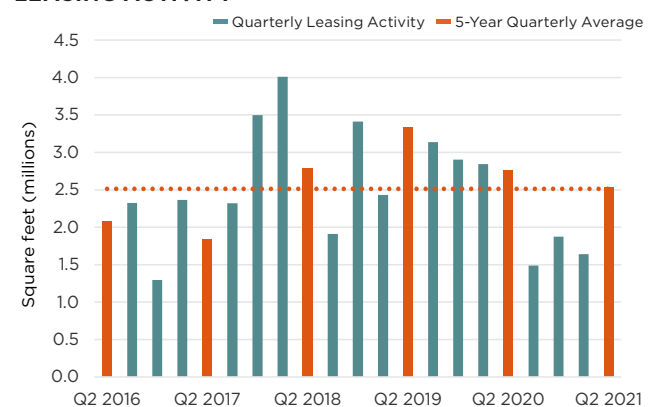
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

85.0%

of major transactions were **new locations** by square footage

42.9%

of large transactions occurred in the **Loudoun County** submarket by square footage

66.7%

Professional services sector tenants represented 66.7% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Raytheon	521,366	22260, 22110 & 22270 Pacific Boulevard	Renewal	Loudoun County	Professional Services
Harris Corporation	161,359	2235 Monroe Street	Renewal	Reston / Herndon	Professional Services
GSA - Department of State	108,296	1400 Wilson Boulevard	New Location	Rosslyn	Government
Boeing	80,339	14660 Lee Road	Renewal	Route 28 South / Chantilly	Manufacturing
Guidehouse	74,532	1676 International Drive	New Location	Tysons Corner	Professional Services
Metropolitan Washington Airports Authority	58,763	198 Van Buren Street	Renewal	Reston / Herndon	Government
Sunrise Senior Living	55,938	7900 Westpark Drive	Renewal	Tysons Corner	Personal Services
GSA - United States Small Business Administration	55,620	13221 Woodland Park Road	Renewal	Reston / Herndon	Government
Ligado Networks	54,104	10800-10802 Parkridge Boulevard	Renewal	Reston / Herndon	Professional Services
GSA - Department of Defense	45,445	1550 Crystal Drive	Renewal	National Landing	Government

Source Savills Research

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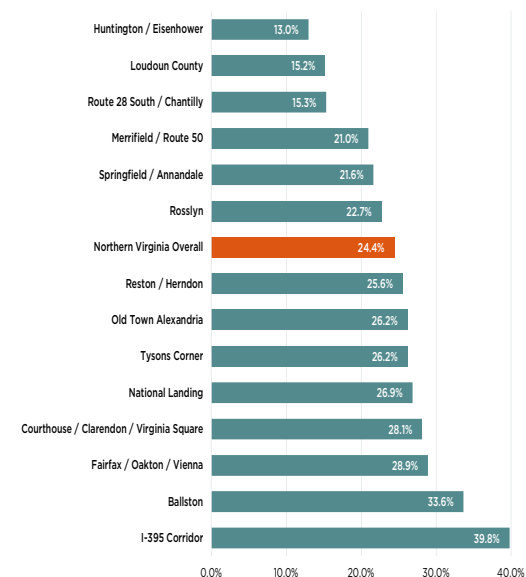
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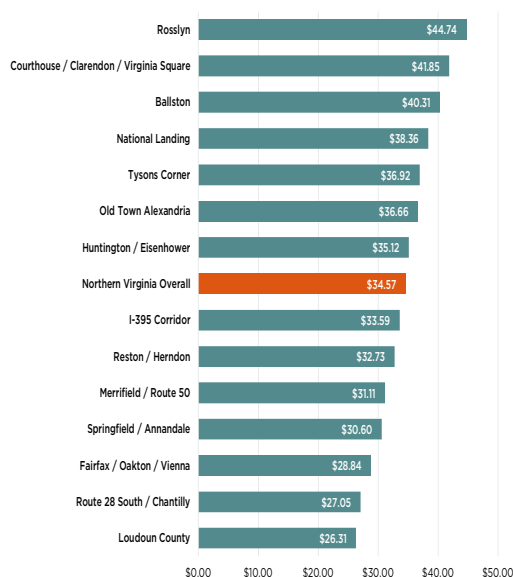
AVAILABILITY RATE COMPARISON

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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