

Northern Virginia



Demand softens after three consecutive quarters of robust leasing

Leasing volume slowed across Northern Virginia in the first quarter of 2022 ending at 1.7 million square feet (msf) of activity. The market had previously recorded three successive quarters of increased leasing activity above 2.0 msf in 2021. This quarter that trend ceased, and leasing activity dropped by 25.7% quarter over quarter as occupiers continue to delay making office decisions due to pandemic concerns. While some industries such as the government, and associations and non-profits, dropped in total leasing activity, the technology, advertising, media and information (TAMI) industry continues to remain active and provide net new growth to the market, comprising over 19% of the total leases signed in Q1. The largest transaction of the quarter was a renewal at 1200 S Hayes Street where RAND Corporation took 126,636 square feet (sf).

Sublease supply swells causing availability to reach new heights

At the start of 2022 Northern Virginia's availability rate rose to a new high of 25.1%. This is the highest availability in the market has ever been, marking a jump of 80 basis points (bps) from Q4 2021. While this increase is not the largest we have seen quarter over quarter, this is the highest peak observed to date caused primarily by the large amount of sublease space that continues to be added to the market. In Q1 there was a 12.7% increase in sublease space added to the market bringing the total to over 5.0 msf – also the highest amount on record. With many occupiers making decisions on their employees returning (or not returning) to the office, large blocks of sublease space are flooding the market for example the recent addition of Gartner's 314,708-sf space at Central Place Tower. The market will continue to remain soft and tenant favorable until a correction takes place and availability declines.

Asking rents halt their upward climb but stay elevated

After asking rents had continuously climbed for three consecutive quarters, average rates dropped to \$35.30 per square foot (psf) market-wide in Q1. Despite an abundance of direct and sublet space on the market landlords have been hesitant to significantly drop rates with the quarter over quarter asking rents only falling by 0.1%. Instead, landlords have provided increased concessions to attract tenants. New, long-term Class A leases receive on average \$104.00 psf in tenant improvement allowances and 14 months of free rent, totaling \$153.00 psf in value (for a ten year lease commitment) – up from \$150.00 psf in total value in Q1 2021.

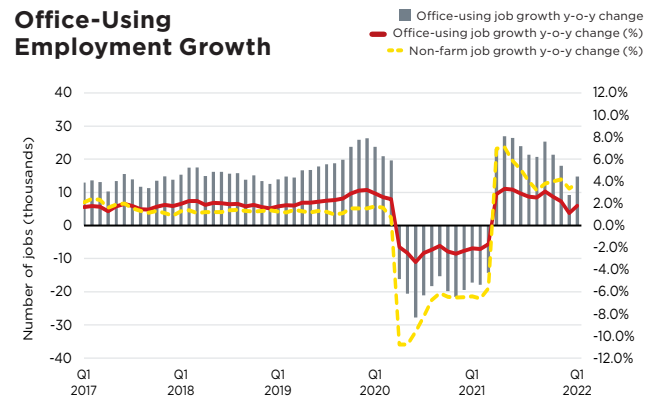
Outlook

- Tenant-favorable market conditions will persist as availability remains historically high and tenants focus on hybrid workplace strategies
- The ongoing supply of sublease space added to the market will provide occupiers with options at deeply discounted rates in the near term until a market correction occurs and the sublease supply contracts
- As many industries delay return-to-office plans, technology companies continue to be at the forefront of leasing in Northern Virginia which will be key to long-term recovery

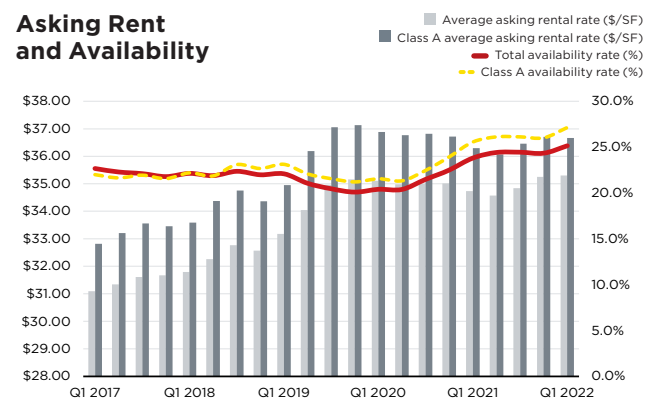
Key Statistics

	Q1 2021	Q1 2022	Y-o-Y Change
Inventory	151.5 MSF	153.3 MSF	▲
Availability Rate	23.8%	25.1%	▲
Asking Rental Rate	\$34.74	\$35.30	▲
Class A Asking Rental Rate	\$36.29	\$36.66	▲
Quarterly Leasing Activity	1.6 MSF	1.7 MSF	▲
Available Sublease Space	3.7 MSF	5.0 MSF	▲

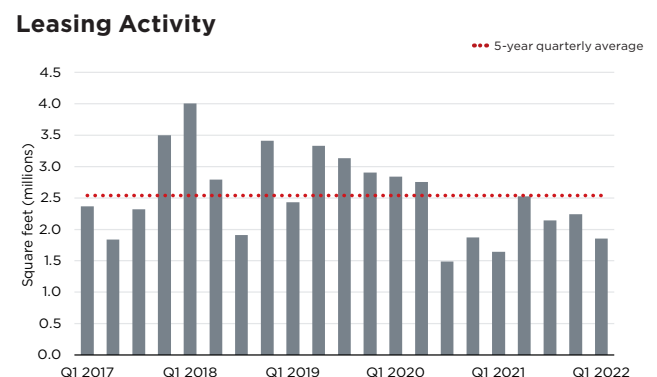
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

4.0%

Washington-Arlington-Alexandria MSA unemployment rate (as of Feb. 2022)

1.1%

Office-using employment growth year-over-year (as of Feb. 2022)

0.9 msf

Office space currently under construction

Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
RAND Corporation	126,636	1200 S Hayes Street	Renewal	National Landing	Non-profit
Clark Construction	114,345	7900 Westpark Drive	New Location	Tysons Corner	Construction
Vomela Commercial	71,875	8000-8080 Grainger Court	New Location	Springfield / Annandale	Professional Services
Appian Corporation	61,000	7950 Jones Branch Drive	Expansion	Tysons Corner	TAMI
Fibertek, Inc.	49,300	13605 Dulles Technology Drive	Renewal	Reston / Herndon	Professional Services
Publicis Sapient	43,000	1515 N Courthouse Road	Renewal	Courthouse / Clarendon / Virginia Square	Professional Services
SOC	36,748	3975 Virginia Mallory Drive	Renewal	Route 28 South / Chantilly	Professional Services
Octagon Worldwide Inc	34,000	7950 Jones Branch Drive	Renewal	Tysons Corner	TAMI
Modern Technology Solutions, Inc	32,481	5285 Shawnee Road	Renewal	Springfield / Annandale	TAMI
FM Global	30,014	2001 Edmund Halley Drive	New Location	Reston / Herndon	Financial Services

Source: Savills Research

For more information, please contact us:

Savills
7900 Tysons One Place
Suite 420
Tysons, VA 22102
+1 703 442 9000

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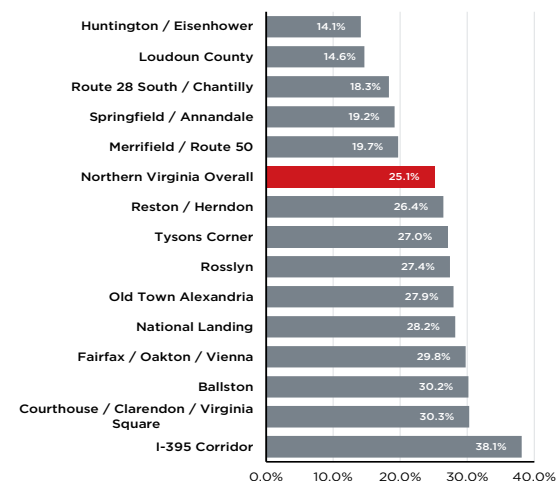
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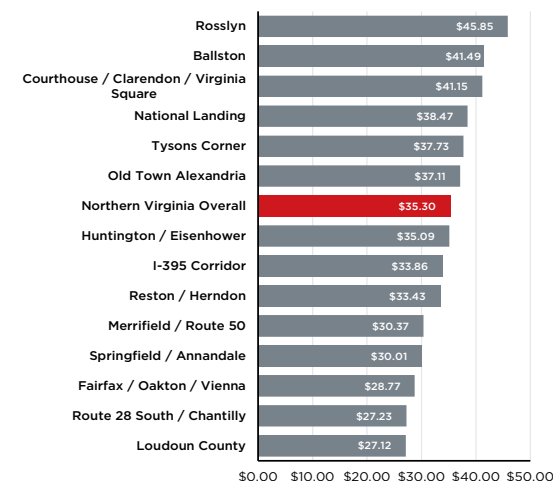
Availability Rate Comparison (%)

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. 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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Kyle O'Connor
Research Manager
+1 703 827 6293
koconnor@savills.us

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