MARKETBEAT

Northern Virginia

OFFICE Q1 2025

MARKET FUNDAMENTALS

	YOY Chg	Outlook
24.3% Vacancy Rate	▲	▲
-125K YTD Net Absorption, SF	▼	▼
$35.74 Asking Rent, PSF	▬	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	Outlook
1.6M Northern VA Employment	▲	▼
2.6% Northern VA Unemployment Rate	▲	▲
4.1% Country Unemployment Rate	▲	▲

Source:BLS

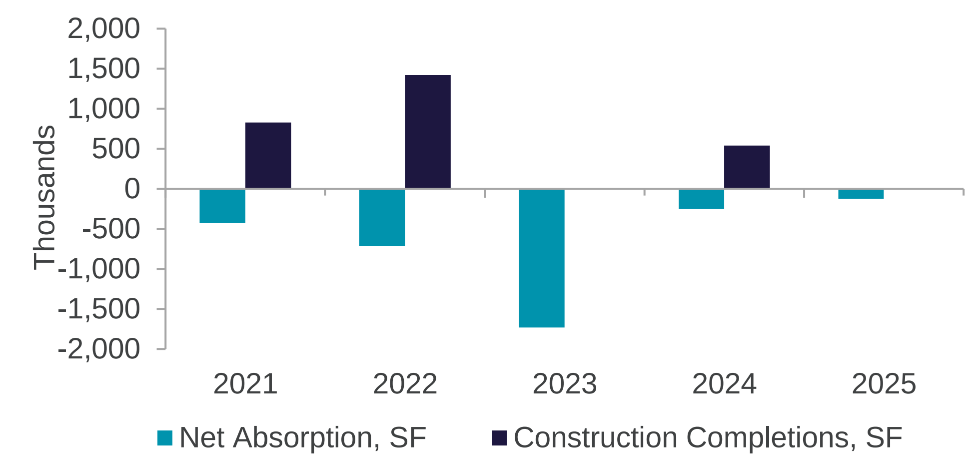
MARKET OUTLOOK

The impact of the second Trump administration on Washington, D.C. metropolitan region's (DC Metro) real estate market was widely anticipated, but what was underestimated was the speed and scope at which these changes have taken effect. The most immediate and significant impact has been agency funding cuts. The U.S. Agency for International Development (USAID) was the first to see drastic reductions, with funding slashed by 98% and thousands of employees laid off or furloughed, with the downstream effect on the employees and real estate footprints of the Agency's contractor tail. Direct recipients of USAID contracts total just under 4 million square feet (msf), regionally (approximately 1.3% of total DC Metro office inventory). The direct recipients of USAID contracts then appear to funnel those funds through other secondary and tertiary organizations, making quantifying the total potential impact difficult. Reductions to other federal agencies have followed. Notably, after U.S. Agency for Global Media's Voice of America signed one of the largest leases last year—350,000 sf at 1875 Pennsylvania Ave NW—the deal was voided when the agency was dissolved earlier this month. Despite this, the Department of Government Efficiency's list of other federal leases for termination in the DC Metro are relatively meager. Of the 676 lease terminations across the U.S. federal leased footprint (75% of which are under 10,000 sf), only 24 leases totaling 1.7 msf have been targeted in the DC Metro. These make up 4.0% of the region's 43.3 msf GSA leased portfolio and 0.56% of the overall DC Metro office inventory. Furthermore, many of these leases were already part of long-term federal plans to consolidate and/or move them to federally owned space

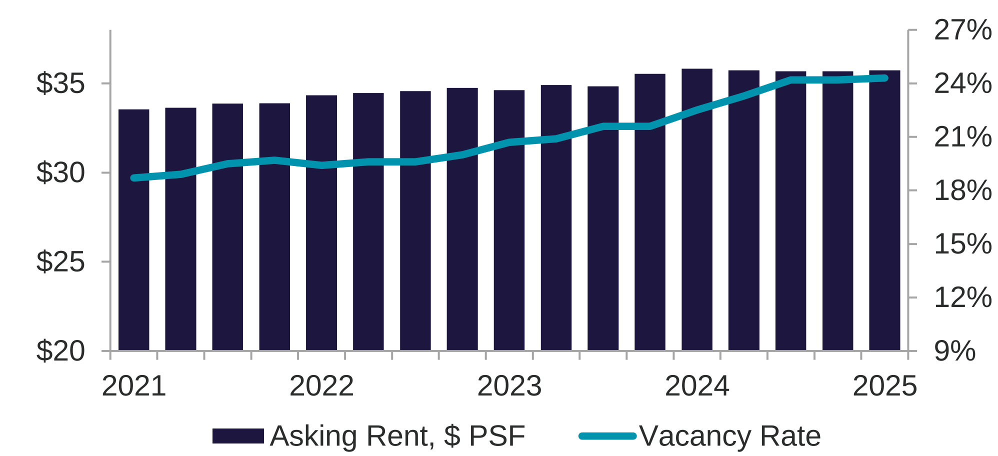
LEASING DEMAND

Northern Virginia (NoVA) recorded 756,000 sf of new leasing and 500,000 sf of renewal activity in the first quarter. Gross leasing activity totaled 1.25 msf in Q1, which is down 37% from Q4 2024 and down 14% year over year (YOY). In the first quarter, Fairfax County recorded 740,000 sf of gross leasing activity, 59% of NoVA's total, followed by Arlington County with 456,500 sf, and the City of Alexandria with 40,500 sf. Reston/Herndon led all submarkets in new leasing with 208,000 sf recorded, 28% of new leasing activity, while Tysons recorded 158,000 sf in Q1. Courthouse/Clarendon/Virginia Sq led renewal activity with 210,500 sf inked, 43% of renewal activity. Class A product accounted for 78% of new leasing with 592,000 sf signed and 45% of renewals with 225,000 sf inked. Class B product accounted for 112,500 sf of new leasing, 15% of Q1 activity, and 54% of renewal activity with 266,760 sf signed

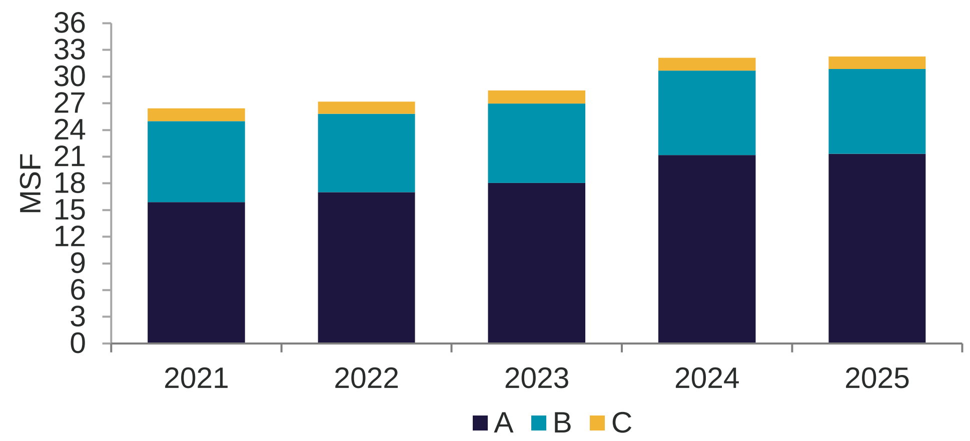
SPACE DEMAND / DELIVERIES



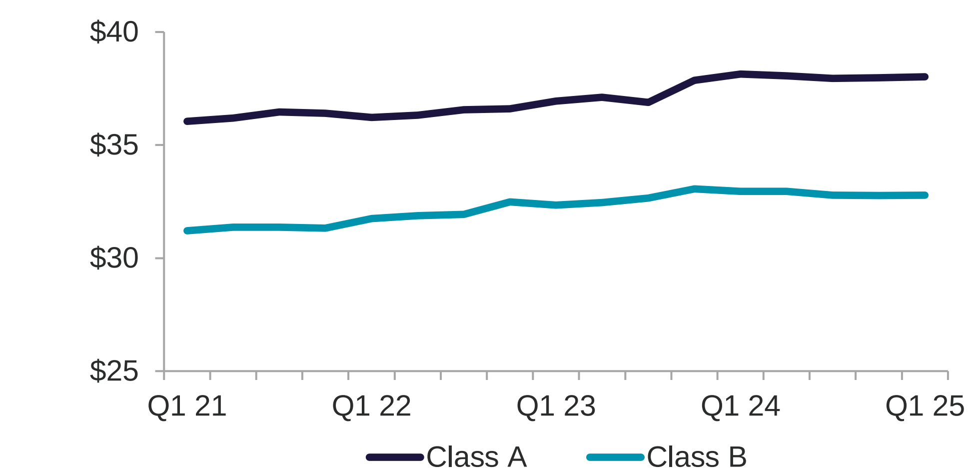
OVERALL VACANCY & ASKING RENT



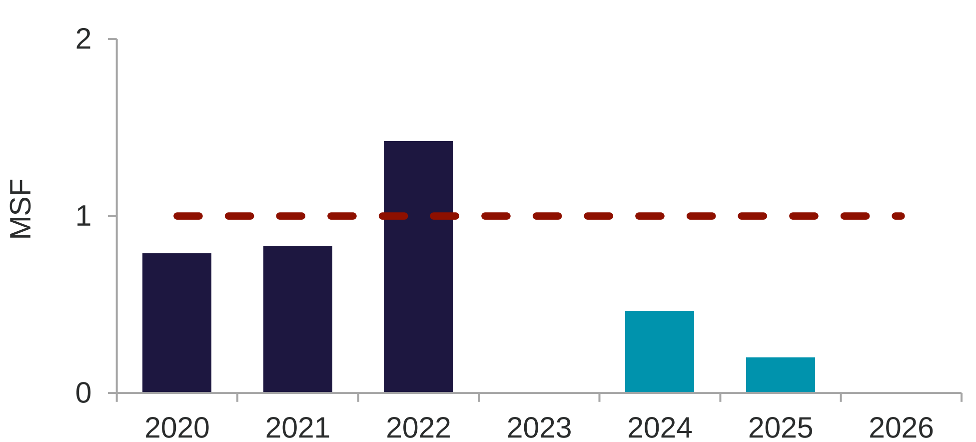
VACANT SPACE BY CLASS



ASKING RENT COMPARISON



NEW SUPPLY



The first quarter recorded 16 deals over 20,000 sf - 11 new deals were completed, of which three were sublets. The largest new lease of the quarter came from CARFAX subleasing 87,000 sf at 1906 Reston Metro Plz in Reston/Herndon. The Federal Deposit Insurance Corporation signed a flat renewal of 171,044 sf at 3701 North Fairfax Dr in Courthouse/Clarendon/Virginia Sq. In Reston/Herndon, DLT Solutions renewed 51,621 sf at 2411 Dulles Corner Park and engineering consultant HNTB took 28,046 sf at 1812 North Moore Street. Xcelerate Solutions will be expanding their space by 23,073 sf at 8405 Greensboro Drive in Tysons.

MARKET SEGMENTS

NoVA recorded negative 125,000 sf of absorption in Q1, the least amount of negative absorption documented over the past year. Class A recorded negative 111,500 sf while Class B posted negative 29,000 sf. Class C was the only class to produce positive absorption, netting 15,500 sf. Arlington County totaled negative 133,000 sf while Fairfax County recorded negative 51,500 sf. Alexandria was the only county to produce positive absorption after registering nearly 67,000 sf. Rosslyn led all NoVA submarkets with 157,000 sf of positive absorption, mainly due to CoStar's move into 1201 Wilson Blvd. I-395 Corridor recorded positive 46,000 sf after the Armed Services Board of Contract Appeals moved into 4825 Mark Center Dr.

Ballston helped drive absorption negative, recording negative 171,000 sf while Crystal City/Pentagon City registered negative 113,000 sf of absorption. In Ballston, Cambridge Associates took 48,000 sf at 950 North Glebe Rd, downsizing from their previous 95,500 sf presence at 4100 North Fairfax Dr. Crystal City/Pentagon City saw the effects of a large GSA move out this quarter at 201 S 12th St as they let their 91,500-sf lease expire. In Fairfax, Reston/Herndon yielded negative 48,000 sf while Tysons netted negative 37,000 sf. In Tysons, Baker Tilly relocated to 8270 Greensboro Dr, taking 44,500 sf, a 53% downsize from their previous 94,000 sf at 8219 Leesburg Pike. USAID contractor Credence Management Solutions vacated their 33,000-sf sublease space at 8609 Westwood Center Dr. Community Brands and Guidehouse both vacated the 5th and 6th floors at 7901 Jones Branch Dr, totaling 49,000 sf of negative absorption. In Reston/Herndon, the Office of the Interior gave back just under 30,000 sf at 381 Elden St while Electrify America vacated 30,000 sf at 2003 Edmund Halley Dr.

VACANCY & RENTAL RATES

Overall average vacancy rates rose 180 basis points (bps) YOY to 24.3%, up 10 bps from Q4 2024. Class A vacancy rose 230 bps YOY to 24.0%, Class B rose 90 bps YOY to 27.4%, and Class C dropped 30 bps YOY to 16.0%. Overall average asking rates increased $0.09 YOY to $35.74 per square foot (psf) on a full-service basis in Q1, a $0.12 increase from last quarter.

OUTLOOK

- Encouraging metrics are arising from new federal return to office mandates and are bleeding over into the private sector. Average weekly return to office percentages are up 4% in the DC region by the end of March 2025 compared to December 2024 and midweek Metro ridership is already up 32% in the Northern Virginia compared to 2024 averages.
- While currently receiving a lot of press, the reality remains that the rightsizing of the federal workforce and its real estate portfolio has been a bipartisan effort going back decades. The federal leased footprint reached its apex in 2012 at 58 msf and shed 15 msf prior to 2025 – a 26% reduction.
- Office-to-residential conversions are on the rise and have accounted for over 1.2 msf of office product being removed from Northern Virginia's total inventory. On top of the projects that have broken ground, conversions of more than 4.4 msf across 29 office properties have been planned or proposed by developers. There are currently five conversions under construction totaling over 800,000 sf in Old Town and Rosslyn.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Rosslyn	8,772,555	52,654	1,718,281	20.2%	156,965	156,965	82,548	0	$40.87	$44.59
Courthouse/Clarendon /VA Square	5,792,811	132,131	1,688,669	31.4%	-5,832	-5,832	32,749	0	$42.95	$43.34
Ballston	7,446,070	94,146	1,953,881	27.5%	-171,077	-171,077	76,230	0	$41.25	$42.89
Crystal City/Pentagon City	10,814,574	131,939	3,480,848	33.4%	-113,044	-113,044	12,659	0	$38.31	$37.91
Arlington County Totals	32,826,010	410,870	8,841,679	28.2%	-132,988	-132,988	204,186	0	$41.05	$42.23
Old Town	7,684,290	91,388	1,795,589	24.6%	16,188	16,188	24,185	0	$36.94	$39.39
I-395	3,753,879	0	797,340	21.2%	46,327	46,327	0	0	$32.13	$35.18
Huntington/Eisenhower	2,861,709	50,010	1,194,394	43.5%	4,252	4,252	0	0	$35.44	$36.98
City of Alexandria Totals	14,299,878	141,398	3,787,323	27.5%	66,767	66,767	24,185	0	$35.03	$37.63
Inside the Beltway	**47,125,888**	**552,268**	**12,629,002**	**27.9%**	**-66,221**	**-66,221**	**228,371**	**0**	**$38.26**	**$40.04**
Annandale/Baileys	1,204,881	0	191,983	15.9%	14,557	14,557	0	0	$26.18	$31.50
Merrifield/Route 50	6,821,558	5,089	1,087,666	16.0%	-6,832	-6,832	27,232	0	$31.03	$33.75
Fairfax/Oakton/Vienna	9,306,165	39,125	2,203,408	24.1%	25,716	25,716	52,621	0	$28.41	$30.79
Tysons Corner	22,063,032	119,782	5,660,802	26.2%	-36,648	-36,648	158,051	0	$38.96	$43.51
Reston/Herndon	26,839,251	340,076	6,322,510	24.8%	-47,635	-47,635	208,258	163,331	$33.94	$35.49
Route 28 South/Chantilly	9,984,794	29,242	1,460,259	14.9%	18,043	18,043	48,585	0	$29.66	$31.45
Springfield	3,568,868	0	737,985	20.7%	-18,660	-18,660	28,775	0	$35.54	$38.60
Fairfax County Totals	79,788,549	533,314	17,664,613	22.8%	-51,459	-51,459	523,522	163,331	$34.32	$37.13
Loudoun County Totals	5,662,421	64,591	818,046	15.6%	-6,988	-6,988	4,356	0	$28.14	$30.74
Outside the Beltway	**85,450,970**	**597,905**	**18,482,659**	**22.3%**	**-58,447**	**-58,447**	**527,878**	**163,331**	**$31.48**	**$34.48**
Northern Virginia Totals	**132,576,858**	**1,150,173**	**31,111,661**	**24.3%**	**-124,668**	**-124,668**	**756,249**	**163,331**	**$35.74**	**$38.02**

Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2025

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3701 North Fairfax Drive	Courthouse/Clarendon/VA Sq	Federal Deposit Insurance Corporation	171,044	Renewal*
1906 Reston Metro Plaza	Reston/Herndon	CARFAX	87,000	Sublease
2411 Dulles Corner Park	Reston/Herndon	DLT Solutions, LLC	51,621	Renewal*
1812 North Moore Street	Rosslyn	HNTB	48,046	New Lease
2100 Reston Parkway	Reston/Herndon	FM Global	32,935	Renewal*

Renewals not included in leasing statistics

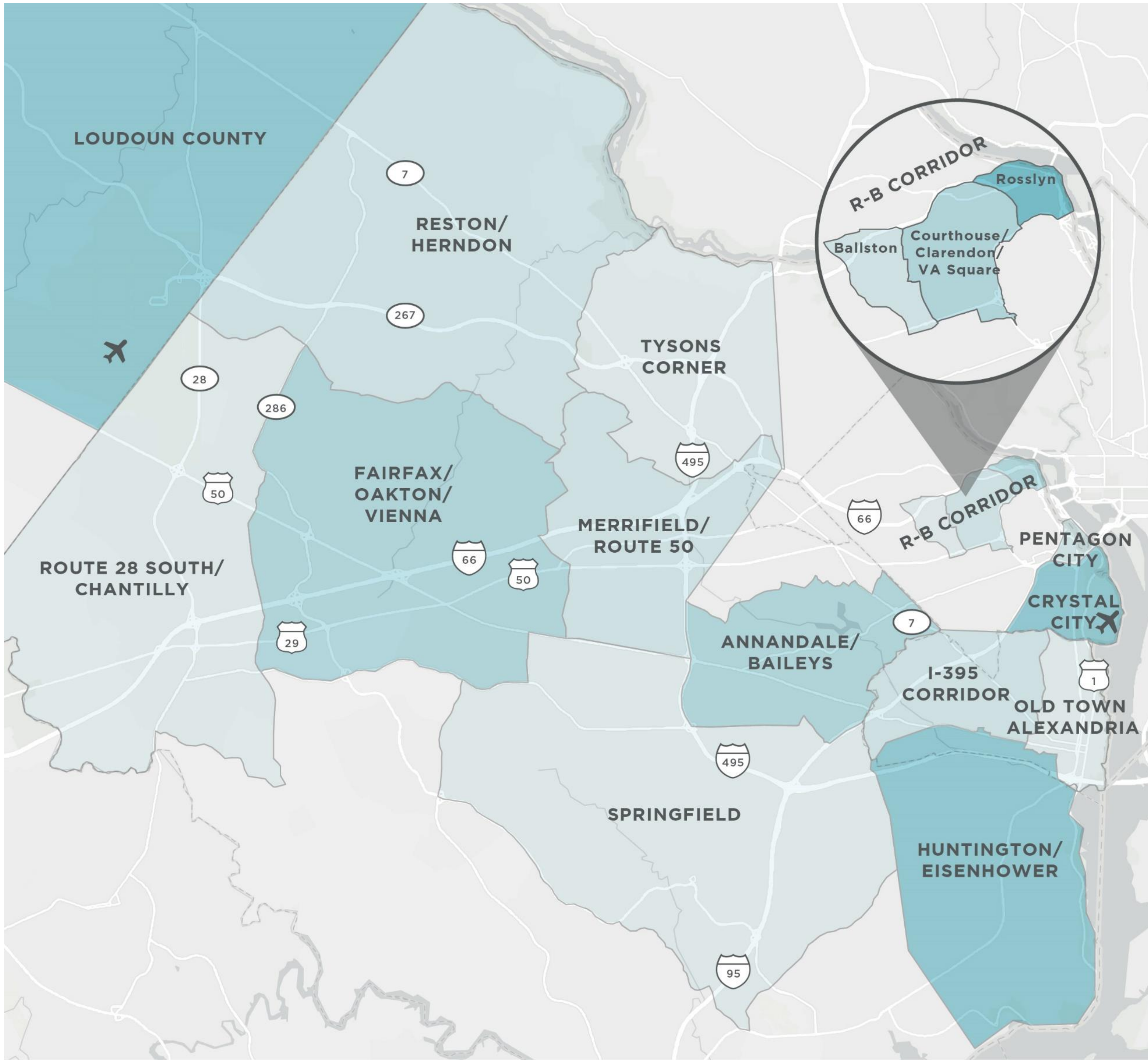
KEY TRANSFERS Q1 2025

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / $ PSF
8401 & 8405 Greensboro Drive	Tysons	Westbrook Partners JV AREP / CIM Group	465,727	$148,000,000 / $317.78
421 King Street, 123 N Pitt Street, 110 N Royal Street & 132 N Royal Street	Old Town	Cambridge JV Westport Capital / Melrose Solomon JV Captial Vision Management	171,378	$38,850,000 / $226.00

KEY UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
1880 Reston Row Plaza	Reston / Herndon	-	163,331	Comstock

OFFICE SUBMARKETS



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