

Q4 2024 Office Market Report Northern Virginia

Q4 2024

Market Overview

The Northern Virginia office market continued to face significant challenges throughout 2024. Despite positive net absorption of 351,420 square feet in the fourth quarter—the first quarter of positive absorption since Q1 2022—the year-to-date total ended at negative 2.25M square feet of net absorption. While this is an improvement over the negative 2.85M square feet recorded in 2023, lack of organic tenant demand and entrenched hybrid work policies continue to hamper the leasing market and occupancy rates. Overall rental rates across the market increased slightly to \$37.65/SF, representing a 2.4% increase year-over-year. However, rental rates in Class B buildings remain well below the overall average at \$30.54/SF. As a possible indicator of the type of tenant demand in Northern Virginia, Class B properties have fared better from an occupancy standpoint, with the asset type's vacancy rate at 15.4%, representing a 7.8% difference compared to the broader market.

In one of the quarter's largest transactions, SAIC renewed their lease at 4801 Stonecroft Blvd for 241,000 square feet in the Route 28 South submarket. In the sales market, Brandywine Realty Trust sold the Liberty Center located at 4040 Wilson Boulevard, a 225K square foot Class A building in the Ballston submarket, to Shooshan for \$37.33 million (\$332.25/SF). Additionally, Walton Street Capital LLC sold three Class A office buildings in the Reston/Herndon submarket—13461 Sunrise Valley Dr, 13655 Dulles Technology Dr, and 13665 Dulles Technology Dr—to Nuveen for \$59 million (\$171.02/SF). This portfolio sale reflects the ongoing trend of more competitive pricing in the market, with several buildings trading well below previous valuations.

Quarterly Key Performance Indicators

Net Absorption
351,420 SF

Direct Asking Rent
\$37.65/SF

Vacancy
23.24%



Notable Regional Trends

Northern Virginia leads the U.S. data center market, driving nearly half of capacity growth in four years.

Recorded positive net absorption for the first time since Q1 2022

The GSA plans to shed multiple leases, with the State Department cutting 770,000 SF in DC and Northern Virginia.

Full Service Rents by Class

Asset Class	Full Service Rent/ SF	Q-Q % Change	YTD % Change
Class A	\$39.04	0.6%	2.4%
Class B	\$30.54	3.1%	2.2%
Overall	\$37.65	0.4%	2.4%

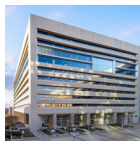
Recent Lease Transactions



4801 Stonecroft Boulevard
Route 28 South
SAIC
241,000 SF



10302 & 10304 Eaton Place
Fairfax City
Zeta Associates
232,140 SF



1310 N Courthouse Road
Courthouse/Clarendon
GSA
71,207 SF

Recent Sale Transactions



13461 Sunrise Valley Drive
Reston/Herndon
Buyer: Nuveen
345,228 SF \$59M (\$171.02/SF)



4040 Wilson Boulevard
Ballston
Buyer: Shooshan
224,700 SF \$37.3M (\$332.25/SF)

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Market Data

Occupancy Trends

The Northern Virginia office market saw several notable deliveries in 2024. In November, George Mason University's College of Business completed a 345,000 square-foot Class A building at 3401 Fairfax Drive in the Virginia Square submarket. This follows recent developments in the District. In May, Skanska delivered a 200,000 square-foot Class A building at 3901 N Fairfax Drive in the Ballston submarket. In June, the Reston submarket also welcomed a significant addition with the completion of a 330,000-square-foot Class A office building at 1800 Reston Plaza Road. Net absorption in Q4 2024 totaled positive 351,000 square feet, marking a sharp turnaround from the deeply negative figures recorded earlier in the year. Year-to-date, net absorption stands at negative 2.25 million square feet, an improvement over the negative 2.86 million square feet reported through Q3 2024. Class A properties led the recovery, contributing 238,000 square feet of positive absorption in Q4, highlighting renewed tenant demand for high-quality office spaces.

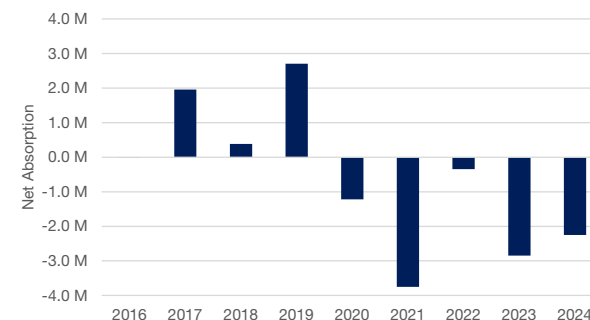
Construction Snapshot

Following nearly a decade of active development, the Northern Virginia office market's development pipeline has sharply leveled off. This slowdown is primarily driven by unpredictable tenant demand, rising construction costs, and broader economic challenges. Amid the ongoing "flight-to-quality" trend in the commercial real estate market, the limited number of new Class A projects could create a ripple effect, potentially tightening this segment of the market for tenants seeking higher-quality spaces. In Q4 2024, only one building—a 345,000-square-foot Class A office space—was delivered, with approximately 765,000 square feet still under development. This represents a dramatic decline compared to the 2019 peak, when over 3.3 million square feet was under construction.

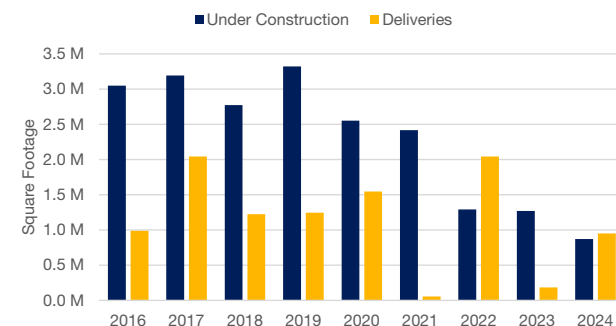
Market Vacancy

The Northern Virginia office market is seeing a clear divide in performance between Class A and Class B properties. As of 2024, Class B buildings maintain a lower average vacancy rate of 15.5%, while Class A properties are struggling with significantly higher vacancies at 26.3%. This disparity has been amplified by recent deliveries in key submarkets like Ballston and Virginia Square, which have added substantial un-leased inventory to the market. A prime example is the newly delivered 345,000-square-foot Class A office building at 3401 Fairfax Drive, which remains 32.5% vacant following its November 2024 completion. Similarly, the 200,576-square-foot Class A office building at 3901 N Fairfax delivered in the third quarter of 2024 and remains 100% vacant following its completion in May 2024. These new additions are contributing significantly to the elevated vacancy rates in Class A spaces, as landlords face the challenge of leasing premium office space in a market where tenant demand remains uncertain.

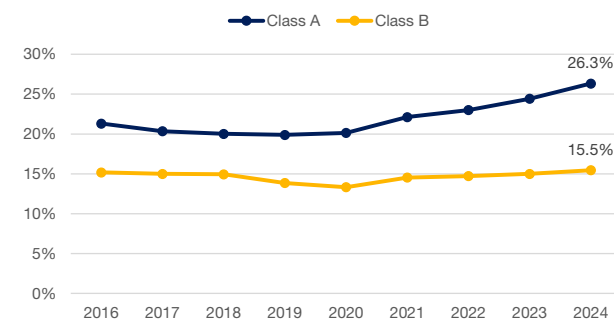
Occupancy Growth



Development Pipeline



Vacancy Rate by Class



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Sublease Report

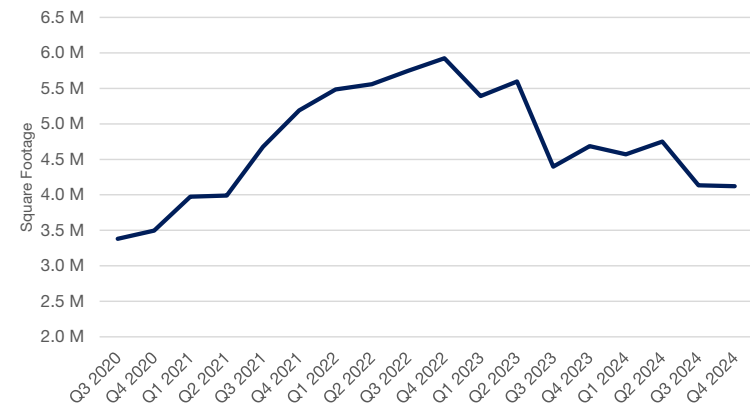
The sublease market in Northern Virginia continues to play a significant role in the overall office market landscape. As of the fourth quarter of 2024, there are approximately 311 sublease spaces available in Northern Virginia, consisting of 4 million square feet of office space. Roughly 70% of the available subleases range between 5,000 and 30,000 square feet, offering a diverse range of options for tenants seeking flexibility in their space requirements. The Tysons Corner, R-B Corridor, and Reston/Herndon submarkets dominate the sublease market, accounting for 70% of the total available sublease space.

Pricing for sublease spaces varies, with 88% of the current offerings with listed asking rates set between \$15.00 and \$35.00 per square foot. The majority of subleases in the market are priced at a significant discount compared to direct spaces, putting further pressure on landlords as they compete for tenants in the market.

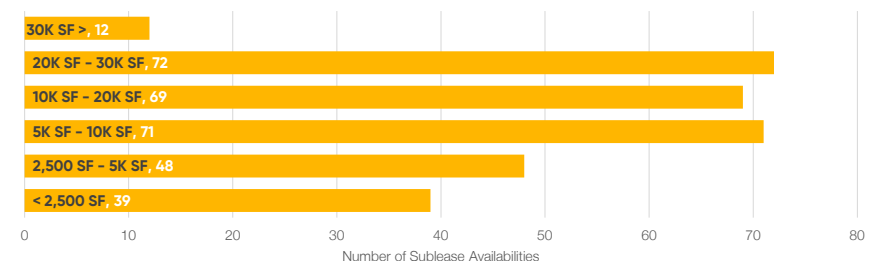
Significant activity occurred in the Merrifield submarket, where Colliers added two new sublease spaces in December, totaling just under 50,000 square feet at 3180 Fairview Park Drive.

The sublease market did show signs of tightening in 2024, with total sublease inventory across Northern Virginia decreasing by over 560,000 square feet over the past year.

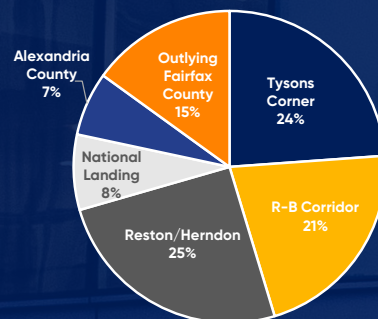
Quarterly Change in Sublease Availability



Distribution of Sublease Availabilities by SF



Sublease Inventory by Submarket



65.2%

Increase in Sublease Availability by SF since 2019

19.5

Average Months on Market

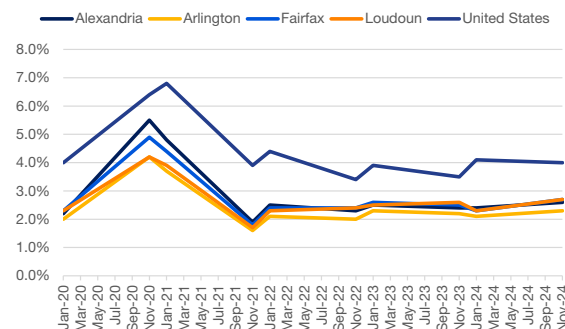
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Economic Outlook

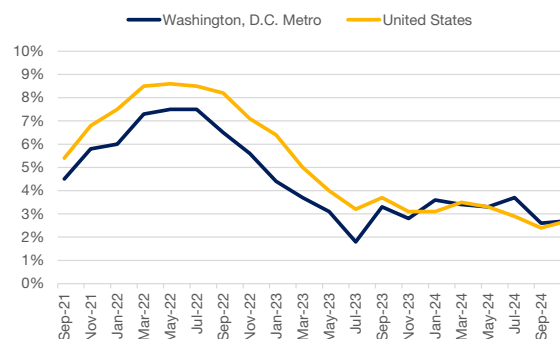
The Northern Virginia office market, which includes Alexandria, Arlington, Fairfax, and Loudoun counties, recorded unemployment rates between 2.3% and 2.7% through the fourth quarter of 2024. These figures align closely with pre-pandemic levels, reflecting a robust recovery in the local labor market.

Nationally, the USA's unemployment rate of 4.1% similarly falls below its 10-year average of 4.7%. While this signals economic stability, inflation remains a concern, with the DC metro area 12-month CPI change at 2.7%. With costs of goods higher, compounded by elevated labor and construction costs, companies are more prone to make cost-conscious decisions as it relates to their real estate needs.

Unemployment Rate

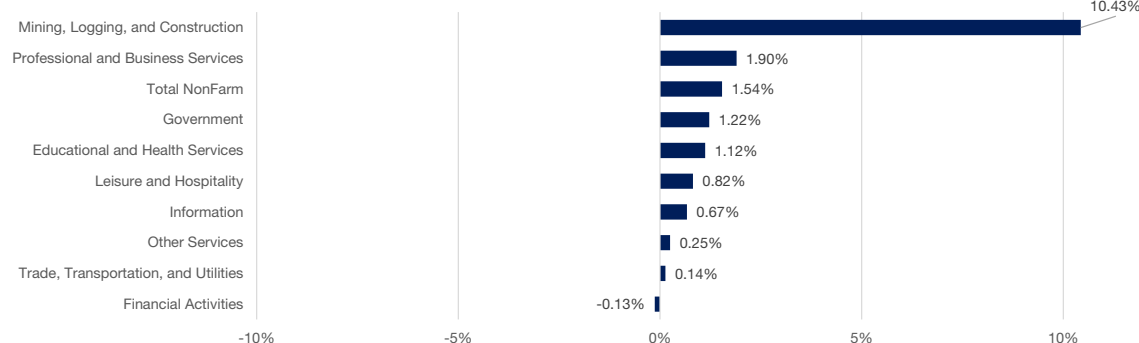


Consumer Price Index, 12-Month % Change



Over the past year, the region has seen overall nonfarm employment grow by 1.54%, driven by notable job gains in several sectors. Mining, Logging, and Construction led the way with a significant 10.43% increase, followed by Professional and Business Services at 1.9% and Government at 1.22%. However, not all industries experienced growth—Financial Activities saw a slight decline of 0.13%, reflecting ongoing adjustments in the labor market.

Employment Growth by Industry, 12-Month % Change, October 2024



A significant driver of employment growth in Virginia's mining, logging, and construction sector has been the heightened demand for labor, primarily fueled by infrastructure projects designed to support Northern Virginia's burgeoning data center industry. Several Fortune 100 companies, such as Microsoft, Amazon and Meta, continue to invest heavily in data center infrastructure in Northern Virginia to meet growing energy needs for the scale of artificial intelligence capabilities.

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Submarket Statistics - All Classes

Submarket	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
Annandale	22	1,289,478	-	249,427	14.8%	14.8%	(1,483)	-	-	\$27.76
Ballston	35	7,747,091	288,447	2,477,040	26.2%	28.1%	(17,969)	-	200,576	\$42.55
Courthouse/Clarendon	29	5,205,625	349,411	2,019,096	30.5%	33.9%	(89,156)	-	-	\$44.08
Eisenhower/Huntington	32	5,509,859	68,270	1,810,259	27.5%	27.9%	13,719	-	-	\$34.34
Fairfax Center	50	6,293,099	193,216	1,560,750	19.1%	19.9%	25,698	-	-	\$29.98
Fairfax City	59	2,843,130	5,148	368,836	10.3%	10.5%	25,291	-	-	\$26.24
Falls Church	26	1,537,275	24,081	277,124	11.9%	13.0%	3,844	-	-	\$28.82
Herndon	90	11,198,425	352,666	3,790,128	23.7%	25.3%	48,114	-	-	\$33.72
I-395	41	5,435,564	9,378	1,355,523	35.1%	35.2%	(66,952)	210,000	-	\$31.10
Leesburg/West Loudoun	41	1,918,358	35,571	194,804	4.9%	6.7%	(22,402)	-	-	\$33.73
Manassas	24	850,615	-	62,237	6.9%	6.9%	(13,021)	-	-	\$25.09
Mclean	17	779,776	6,845	120,774	14.2%	14.7%	17,963	-	-	\$33.67
Merrifield	76	8,322,403	109,280	1,713,171	15.6%	16.9%	(80,485)	-	-	\$32.11
National Landing	42	12,858,410	311,983	3,319,849	29.1%	31.0%	(115,556)	-	-	\$44.50
Oakton	12	1,426,124	7,565	244,802	33.6%	33.6%	(3,737)	-	-	\$27.44
Old Town	92	6,901,890	172,472	1,638,161	18.8%	20.4%	15,315	-	-	\$37.53
Reston	140	19,313,880	548,090	5,713,752	25.5%	26.6%	(24,604)	210,000	405,611	\$35.56
Rosslyn	31	8,656,066	175,986	2,183,595	23.1%	24.2%	(6,819)	-	-	\$45.18
Route 28 Corridor North	94	7,688,659	39,670	948,950	13.6%	14.0%	(1,198)	200,000	-	\$28.44
Route 28 Corridor South	119	12,589,958	138,090	2,192,835	16.4%	16.8%	8,384	-	-	\$30.70
Route 29/I-66 Corridor	45	2,266,637	1,740	132,176	4.8%	4.9%	71,383	-	-	\$25.97

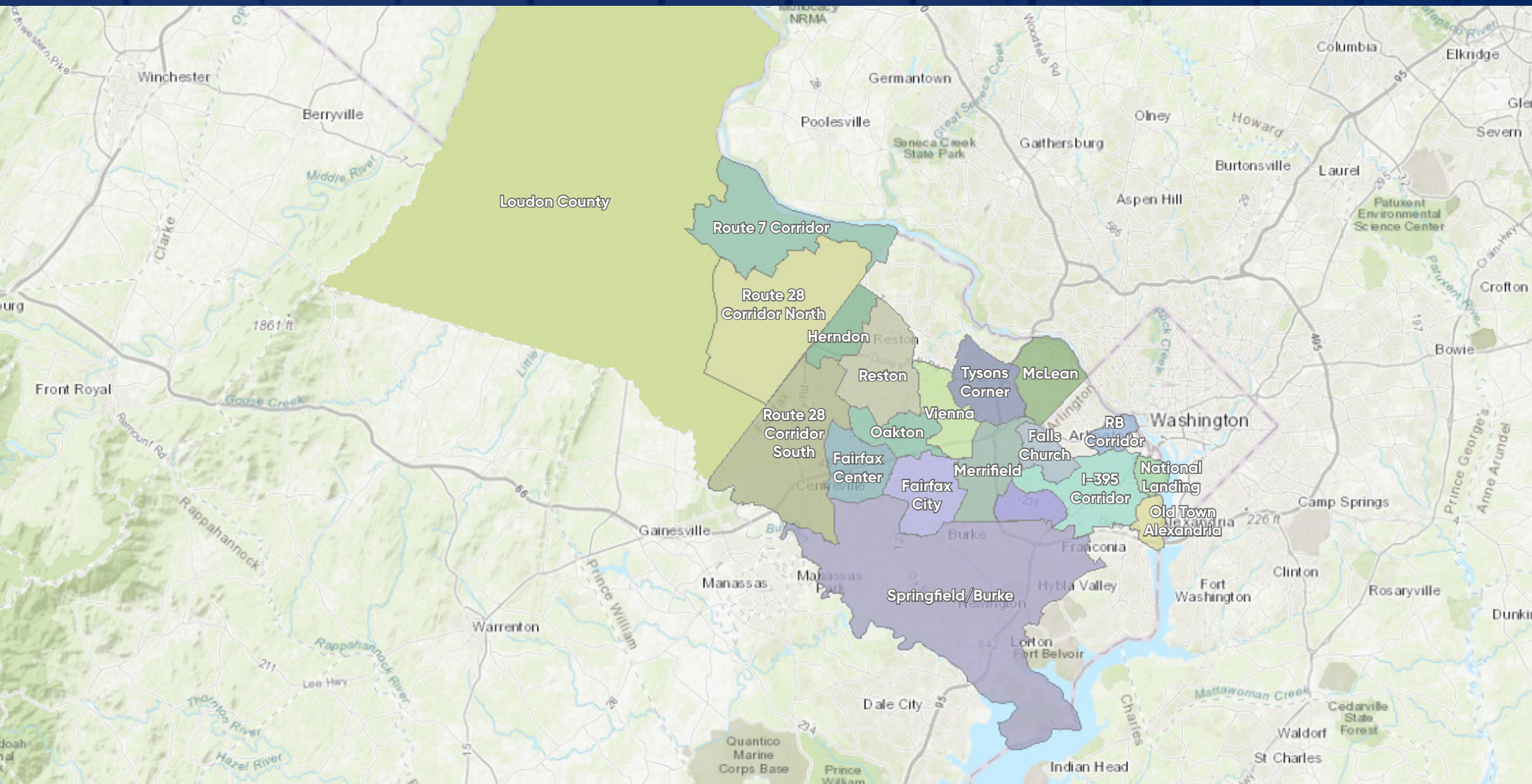
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Route 7 Corridor	43	2,641,504	15,228	345,206	7.1%	7.6%	15,819	96,992	-	\$32.04
Springfield/Burke	74	5,377,156	26,161	1,114,761	17.8%	18.2%	29,841	-	-	\$33.02
Tysons Corner	126	22,409,674	887,160	7,429,453	25.6%	26.5%	181,096	-	-	\$39.60
Vienna	13	1,045,508	8,469	402,159	37.3%	37.3%	108,548	-	-	\$27.39
Virginia Square	12	1,284,184	33,396	381,414	27.9%	29.2%	235,306	-	345,000	\$42.80
Woodbridge	44	1,686,353	15,407	145,458	10.5%	11.4%	(5,519)	-	-	\$29.46

Market Statistics by Class

Class	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
Class A	610	112,122,923	3,273,520	33,512,465	25.7%	26.9%	238,737	716,992	951,187	\$39.04
Class B	819	52,953,778	550,210	8,679,275	14.7%	15.4%	112,683	-	-	\$30.54
Northern Virginia Totals	1,429	165,076,701	3,823,730	42,191,740	22.2%	23.2%	351,420	716,992	951,187	\$37.65



Contact us for more information.



Dylan Koerner
Research Analyst
dkoerner@cresa.com
703.263.5586