

RESEARCH MARKET REPORT

NORTHERN VIRGINIA

OFFICE | Q4 2017



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A Strong End to a Strong 2017

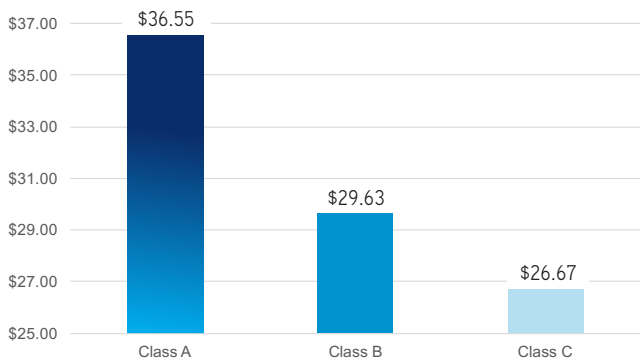
Miles Rodnan RESEARCH ANALYST | NORTHERN VIRGINIA

During the fourth quarter, demand in the Northern Virginia office market surged after a third quarter lull, growing 410,722 square feet. This brought net absorption to 1.9 million square feet for 2017. New supply continued to deliver, prompting opportunities for tenants in most block sizes. While construction was at a high of 5.5 million square feet in 2016, it was down to 2.8 million at the end of 2017. Developers are expected to continue to break ground on new projects, creating even more Class A opportunities making it harder for Class B and C product to compete for tenants.

Economy

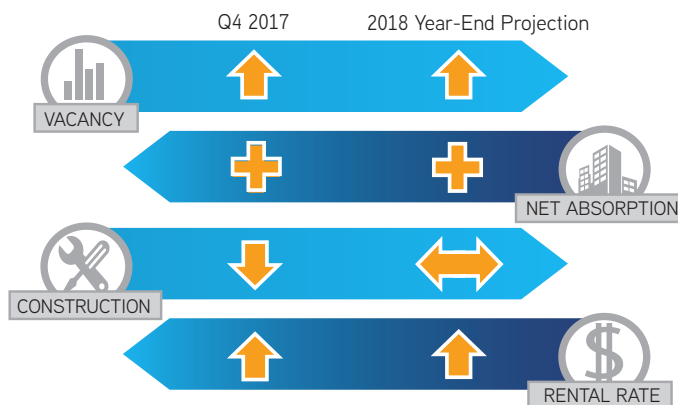
During the fourth quarter of 2017, the Northern Virginia economy grew at an annualized rate of 4.16 percent, the highest level since 2005. This compared with 3.83 percent in the third quarter, 3.31 percent in the second and 2.73 percent in first. As a result, the gross regional product in Northern Virginia increased by 3.51 percent for the year. Even as economic growth posted a recent high, office-using employment grew at a repressed pace, adding only 380 jobs. While at a lower pace than would be expected, it was enough to replace the jobs lost during the third quarter. In total, 6,330 new office-using jobs were created in 2017.

Direct Asking Rental Rates By Class



Sources: CoStar Group; Colliers International

Market Indicators

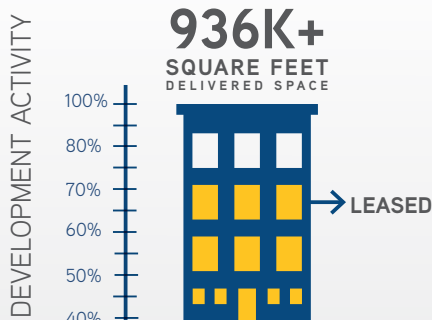


Summary Statistics

Q4 2017 Office Market	All Classes	Class A	Class B & C
Vacancy Rate	17.9%	18.8%	17.1%
Change from Q3 2017 (basis points)	11	46	-20
Absorption (Square Feet)	410,722	352,168	58,554
New Construction (Square Feet)	936,879	936,879	-
Under Construction (Millions Square Feet)	2.83	2.49	0.34
Asking Rents Per Square Foot Per Year			
Direct Asking Rates	\$32.27	\$36.55	\$29.04
Change from Q3 2017	\$0.29	\$0.29	\$0.06

MARKET SNAPSHOT

TENANTS STILL HAVE GREAT OPPORTUNITIES IN MOST BLOCKS OF SPACE EVEN AS DEMAND CONTINUES TO GROW



Federal spending, via contract awards, underpins the Northern Virginia economy. During the first quarter of fiscal year 2018, \$2.4 billion in contract awards were received by companies in Northern Virginia. This spending amounted to 7.1 percent of all contract awards in the nation, and 40.4 percent of the awards in the Washington, DC office market.

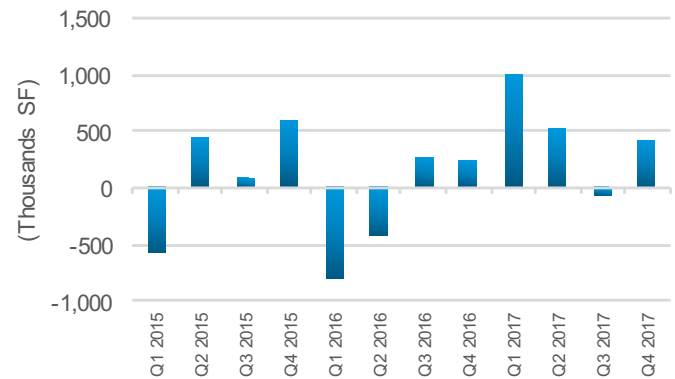
Demand

Demand for office space in Northern Virginia increased towards the end of the year with 410,722 square feet of space taken off the market during the fourth quarter of 2017. This brought annual net absorption to 1.9 million square feet.

Most of the quarter's new demand was for Class A product, in which 352,168 square feet of new absorption occurred. This compared to 182,001 square feet absorbed during the third quarter. This brought the total for the year to 2.1 million square feet for Class A product. Demand for Class B product also increased with 151,626 square feet of space taken off the market. This is in sharp contrast from last quarter when demand for Class B fell by 426,626 square feet of space.

While net absorption for Class A and B space grew, demand for Class C decreased for the first time in five quarters, as 93,072 square feet of space was returned. This lowered total new demand for Class C product for 2017 to 142,908 square feet.

Net Absorption



Source: Colliers International, CoStar Group

Northern Virginia—Office Market—Leasing Activity | Q4 2017

TENANT	ADDRESS	LEASE TYPE	LEASED SPACE (SF)
GSA - Office of Naval Research (ONR)	875 N Randolph Street	Renewal	313,000
CSRA	3170 Fairview Park Drive	Sale/Leaseback	175,000
CGI Federal	12601 Fair Lakes Circle	Renewal	172,000
Peraton	12975 Worldgate Drive	Renewal	167,285
Undisclosed	2600 Park Tower Road	Renewal	121,000
GSA - State Department	3920 Pender Drive	Renewal	83,130
National Automobile Dealers Association (NADA)	8484 Westpark Drive	Relocation	63,284
Accenture	1525 Wilson Boulevard	Renewal	50,186
Advance Health	3080 Centreville Road	Relocation	48,811
Spaces	1900 Reston Metro Plaza	New	40,745

Northern Virginia—Office Market—Class A | Q4 2017

MARKET	EXISTING INVENTORY (SF)	NEW SUPPLY (SF)	2017 NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	2017 ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	5,763,447	-	700,000	-	-57,934	600,834	11.4%	\$41.09
Eisenhower Ave Corridor	128,000	-	-	-	-	-	0.0%	n/a
I-395 Corridor*	2,674,222	-	-	-	30,595	85,783	39.3%	\$29.00
Old Town	745,672	-	-	100,000	5,115	8,114	11.7%	\$31.57
Alexandria City Total	7,526,806	-	700,000	100,000	-43,625	635,243	18.8%	\$39.59
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	4,130,646	-	-	-	-77,571	69,119	20.8%	\$40.54
Falls Church**	85,000	-	-	-	-	-	0.0%	n/a
Rosslyn/Ballston Corridor	15,267,800	552,781	719,548	175,000	174,869	-111,419	25.7%	\$44.14
Arlington County/Falls Church Total	20,014,735	552,781	719,548	175,000	118,699	-5,144	24.2%	\$43.09
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	200,000	-	-	-	-	-22,152	40.6%	\$31.50
Fairfax/Oakton	4,215,674	149,098	149,098	-	36,083	-18,120	26.4%	\$30.30
Herndon	7,141,205	-	-	-	-32,223	-89,985	23.8%	\$32.06
McLean	-	-	-	-	-	-	n/a	n/a
Merrifield	4,602,284	-	-	-	40,203	628	22.7%	\$33.28
Reston	11,080,340	-	368,413	179,152	-72,569	224,711	11.7%	\$34.41
Route 28 Corridor South	9,010,397	-	240,000	480,000	55,952	659,525	8.3%	\$27.83
Springfield/Huntington	2,298,732	-	-	-	-16,945	-23,845	35.5%	\$37.28
Tysons Corner	14,543,400	-	340,000	1,555,419	59,957	331,814	14.4%	\$40.29
Vienna	451,324	235,000	235,000	-	235,000	206,622	10.3%	n/a
Fairfax Area Total	54,796,602	384,098	1,332,511	2,214,571	305,458	1,291,530	16.9%	\$34.41
LOUDOUN COUNTY								
Leesburg/West Loudoun	470,939	-	-	-	-895	71,610	11.8%	\$28.50
Route 28 Corridor North	5,236,983	-	-	-	-48,611	8,612	20.3%	\$25.55
Route 7 Corridor	1,112,203	-	71,466	-	24,817	83,480	14.2%	\$27.57
Loudoun County Total	6,820,125	-	71,466	-	-24,689	163,702	18.7%	\$25.83
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	73,000	-	-	-	-6,143	-431	19.4%	\$18.50
Route 29/I-66 Corridor	624,325	-	73,500	-	2,468	66,931	2.8%	\$24.97
Woodbridge	323,172	-	-	-	-	-11,463	34.2%	\$26.50
Prince William Area Total	1,020,497	-	73,500	-	-3,675	55,037	13.9%	\$25.93
NORTHERN VIRGINIA TOTAL	90,178,765	936,879	2,897,025	2,489,571	352,168	2,140,368	18.8%	\$36.55

* I-395 is split between Arlington County, Fairfax County and Alexandria City

** Falls Church is split between Fairfax County and Falls Church City

FOURTH QUARTER 2017

OVERALL QUICK STATS



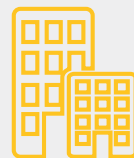
17.9%

Vacancy Rate



410,722

Absorption
(Square Feet)



936,879

New Deliveries
(Square Feet)



\$32.27

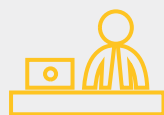
Direct Asking Rate
(\$/Square Feet)

Northern Virginia—Office Market—Class B & C | Q4 2017

MARKET	EXISTING INVENTORY (SF)	NEW SUPPLY (SF)	2017 NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	2017 ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	2,021,862	-	-	-	21,288	-623,214	12.1%	\$35.27
Eisenhower Ave Corridor	664,985	-	-	-	24,260	46,150	11.7%	\$23.77
I-395 Corridor*	5,994,987	-	-	-	12,067	50,708	32.9%	\$29.64
Old Town	4,954,688	-	-	-	1,065	8,986	10.8%	\$31.05
Alexandria City Total	10,803,984	-	-	-	37,212	-602,084	17.2%	\$30.82
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	8,843,203	-	-	270,000	-98,523	-939	17.6%	\$35.26
Falls Church**	2,194,708	-	-	-	-14,342	-28,743	12.8%	\$23.96
Rosslyn/Ballston Corridor	9,576,877	-	-	-	-130,228	-81,735	23.0%	\$39.36
Arlington County/Falls Church Total	20,280,170	-	-	270,000	-211,368	-72,297	19.3%	\$36.72
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	1,671,540	-	-	-	-21,491	18,248	9.7%	\$21.91
Fairfax/Oakton	9,365,742	-	-	-	95,030	150,365	17.3%	\$24.16
Herndon	5,002,981	-	-	-	22,316	-72,077	18.1%	\$24.45
McLean	1,558,716	-	-	-	4,424	5,903	8.8%	\$32.03
Merrifield	4,117,181	-	-	-	12,891	126,416	12.6%	\$27.32
Reston	7,778,206	-	-	-	27,196	82,048	13.6%	\$27.88
Route 28 Corridor South	5,446,719	-	-	-	4,521	-166,894	24.5%	\$24.05
Springfield/Huntington	5,811,913	-	-	-	25,604	33,503	14.1%	\$23.07
Tysons Corner	14,454,336	-	-	-	61,857	131,068	21.4%	\$29.01
Vienna	1,156,610	-	-	-	-16,649	-79,949	12.2%	\$28.40
Fairfax Area Total	59,531,100	-	-	-	205,442	274,225	18.3%	\$26.43
LOUDOUN COUNTY								
Leesburg/West Loudoun	1,836,700	-	-	-	-4,352	35,578	6.0%	\$25.69
Route 28 Corridor North	4,369,124	-	20,000	-	30,756	51,787	16.0%	\$20.96
Route 7 Corridor	3,296,564	-	-	-	9,422	31,532	5.8%	\$24.14
Loudoun County Total	9,502,388	-	20,000	-	35,826	118,897	10.5%	\$21.93
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	1,885,355	-	-	16,000	8,489	-8,064	8.9%	\$20.92
Route 29/I-66 Corridor	2,035,714	-	-	53,000	-16,831	55,715	8.0%	\$17.79
Woodbridge	2,239,279	-	39,000	-	-216	-52,851	10.8%	\$22.81
Prince William Area Total	6,160,348	-	39,000	69,000	-8,558	-5,200	9.3%	\$20.03
NORTHERN VIRGINIA TOTAL	106,277,990	-	59,000	339,000	58,554	-286,459	17.1%	\$29.04

* I-395 is split between Arlington County, Fairfax County and Alexandria City

** Falls Church is split between Fairfax County and Falls Church City



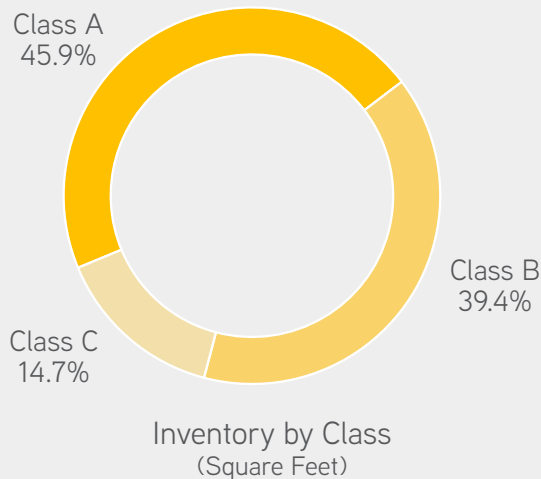
380

Office Jobs Gained



2.83

Under Construction
(Millions Square Feet)



Northern Virginia—Office Market—All Classes | Q4 2017

MARKET	EXISTING INVENTORY (SF)	NEW SUPPLY (SF)	2017 NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	2017 ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	7,785,309	-	700,000	-	-36,646	-22,380	11.6%	\$39.55
Eisenhower Ave Corridor	792,985	-	-	-	24,260	46,150	9.8%	\$23.77
I-395 Corridor*	8,669,209	-	-	-	42,662	136,491	34.9%	\$29.61
Old Town	5,700,360	-	-	100,000	6,180	17,100	10.9%	\$31.11
Alexandria City Total	18,330,790	-	700,000	100,000	-6,413	33,159	17.9%	\$33.50
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	12,973,849	-	-	270,000	-176,094	68,180	18.6%	\$36.92
Falls Church**	2,279,708	-	-	-	-14,342	-28,743	12.4%	\$23.96
Rosslyn/Ballston Corridor	24,844,677	552,781	719,548	175,000	44,641	-193,154	24.7%	\$42.17
Arlington County/Falls Church Total	40,294,905	552,781	719,548	445,000	-92,669	-77,441	21.7%	\$39.67
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	1,871,540	-	-	-	-21,491	-3,904	13.0%	\$25.24
Fairfax/Oakton	13,581,416	149,098	149,098	-	131,113	132,245	20.1%	\$25.99
Herndon	12,144,186	-	-	-	-9,907	-162,062	21.4%	\$30.13
McLean	1,558,716	-	-	-	4,424	5,903	8.8%	\$32.03
Merrifield	8,719,465	-	-	-	53,094	127,044	17.9%	\$30.59
Reston	18,858,546	-	368,413	179,152	-45,373	306,759	12.5%	\$30.87
Route 28 Corridor South	14,457,116	-	240,000	480,000	60,473	492,631	14.4%	\$25.70
Springfield/Huntington	8,110,645	-	-	-	8,659	9,658	20.2%	\$28.60
Tysons Corner	28,997,736	-	340,000	1,555,419	121,814	462,882	17.9%	\$33.31
Vienna	1,607,934	235,000	235,000	-	218,351	126,673	11.7%	\$28.40
Fairfax Area Total	114,327,702	384,098	1,332,511	2,214,571	510,900	1,565,755	17.6%	\$29.91
LOUDOUN COUNTY								
Leesburg/West Loudoun	2,307,639	-	-	-	-5,247	107,188	7.2%	\$26.15
Route 28 Corridor North	9,606,107	-	20,000	-	-17,855	60,399	18.3%	\$23.64
Route 7 Corridor	4,408,767	-	71,466	-	34,239	115,012	7.9%	\$25.73
Loudoun County Total	16,322,513	-	91,466	-	11,137	282,599	13.9%	\$24.06
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	1,958,355	-	-	16,000	2,346	-8,495	9.3%	\$20.82
Route 29/I-66 Corridor	2,660,039	-	73,500	53,000	-14,363	122,646	6.8%	\$18.14
Woodbridge	2,562,451	-	39,000	-	-216	-64,314	13.8%	\$24.25
Prince William Area Total	7,180,845	-	112,500	69,000	-12,233	49,837	10.0%	\$21.09
NORTHERN VIRGINIA TOTAL	196,456,755	936,879	2,956,025	2,828,571	410,722	1,853,909	17.9%	\$32.27

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