

RESEARCH MARKET REPORT

NORTHERN VIRGINIA

OFFICE | Q1 2018



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Amenities Attract Major Tenants to Town Center

Miles Rodnan RESEARCH ANALYST | NORTHERN VIRGINIA

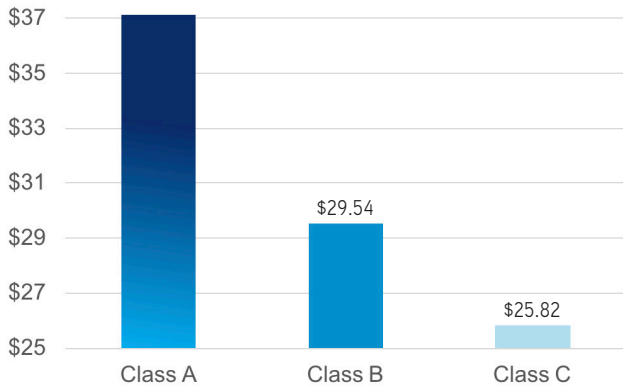
Reston led leasing activity for the quarter, landing preleases by both Fannie Mae and Leidos. Fannie Mae committed to Reston Gateway for 850,000 square feet, while Leidos preleased all of 1750 Presidents Street. Fannie Mae put its three Northern Virginia office buildings on the market in anticipation of their move to the more amenitized space in Reston. Leidos' deal also confirms their commitment to provide amenities for their employees by staying at Reston Town Center and giving them access to the new Metro station. While Leidos currently have a presence in the area, the move will be to newer space, showing their willingness to pay premium rents to maintain an excellent location.

While most new construction has been developed around access to amenities and transit, General Dynamic has opted for a greenfield location away from the center of Reston amenity base.

Economy

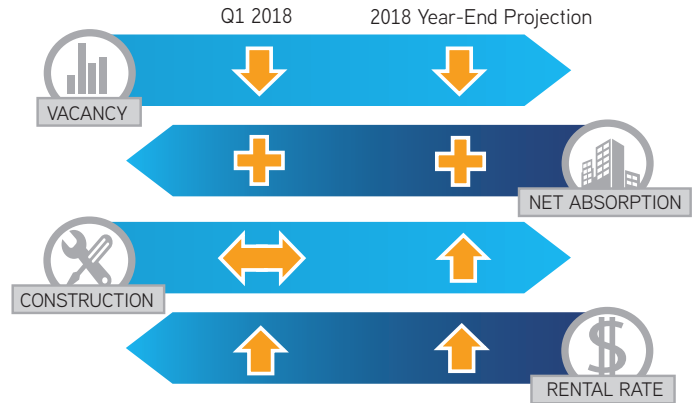
During the first quarter of 2018, Northern Virginia's economy grew by 0.94 percent, an annualized rate of 3.83 percent. This is the most since the recovery from the initial Sequester spending cuts. While

Direct Asking Rental Rates By Class



Sources: CoStar Group; Colliers International

Market Indicators

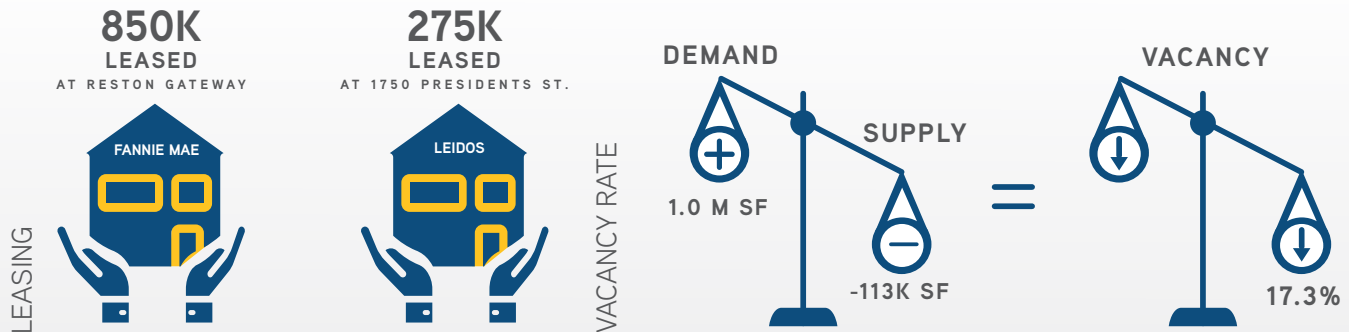


Summary Statistics

Q1 2018 Office Market	All Classes	Class A	Class B & C
Vacancy Rate	17.3%	17.7%	17.0%
Change from Q4 2017 (basis points)	-58	-102	-20
Absorption (Square Feet)	1,036,467	918,076	118,391
New Construction (Square Feet)	-	-	-
Under Construction (Millions Square Feet)	2.80	2.73	0.07
Asking Rents Per Square Foot Per Year			
Direct Asking Rates	\$32.43	\$37.14	\$28.86
Change from Q4 2017	\$0.17	\$0.59	-\$0.17

MARKET SNAPSHOT

LEASING ACTIVITY EXPECTED TO SPUR NEW GROUNDBREAKINGS IN 2018.



Access to amenities attracting new headquarters to the Town Center.

first quarter contract awards are still being processed, the data at the end of March shows companies in Northern Virginia receiving \$7.2 billion in awards. This puts the market on pace to exceed 2017 levels and is well above the pace set during the worst of Sequestration (2012-2015) when companies were awarded an average \$5.1 billion per quarter.

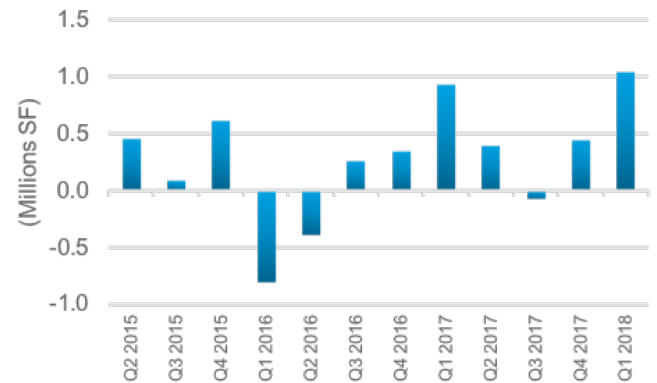
Although the total workforce grew by 4,010 participants, the Metro area's unemployment rate fell seven basis points to 3.56 percent. At full employment, competition for talent remained strong, making office space and the associated amenities both within and surrounding buildings a potential differentiator in attracting and retaining employees. Conditions are even tighter in Northern Virginia. At the end of the first quarter, unemployment ended at 2.84 percent.

The office-using sectors of the economy created 6,580 new jobs during the first quarter, well above the pace set in 2017. The largest job growth occurred in the professional and business services industries. This important sector added 5,120 new positions, with another 1,040 created by local and state governments. Both advocacy groups and the Federal Government shed jobs, reducing payrolls by 70 and 190 positions, respectively.

Demand

On the back of an expanding economy, especially from the renewed inflow of contracting dollars, there was more new demand for office space during the quarter in Northern Virginia since 2007. With a number of large tenants moving into new space, net absorption totaled 1.0 million square feet.

Net Absorption

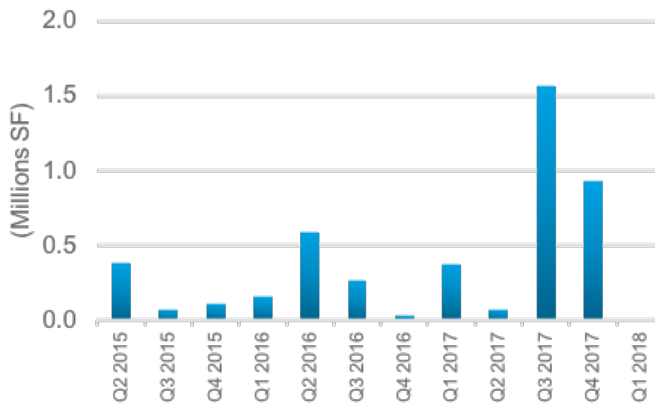


Source: Colliers International, CoStar Group

Northern Virginia—Office Market—Leasing Activity | Q1 2018

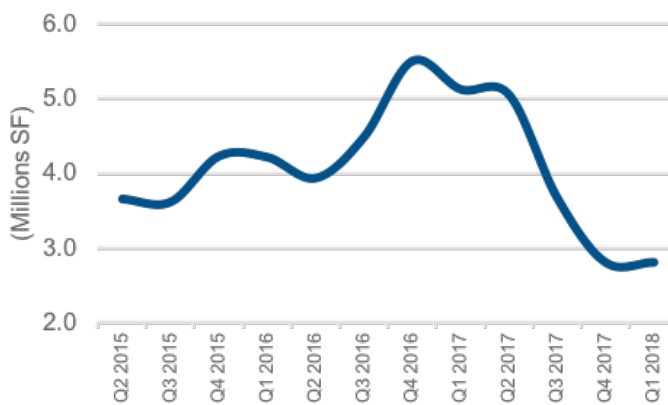
TENANT	ADDRESS	SUBMARKET	LEASE TYPE	LEASED SPACE (SF)
Fannie Mae	Sunset Hills Road	Reston - Trophy	Prelease / Relocation	850,000
Leidos	1750 Presidents Street	Reston - Trophy	Prelease / Relocation	275,809
Microstrategy	1850 Towers Crescent Plaza	Tysons Corner - A	Renewal	213,360
E*Trade	671 N Glebe Road	Ballston - A	Renewal	100,000
Conservation International	2011 Crystal Drive	Crystal City - A	Renewal	89,000
American Institute for Research in the Behavioral Sciences (AIR)	1400 Crystal Drive	Crystal City - A	Relocation	87,610
Leidos	14550 Avion Parkway	Route 28 South - A	Renewal	71,507
ActionNet	2600 Park Tower Drive	Merrifield - A	Renewal	61,886
Fire Eye	11955 Freedom Drive	Reston - A	Relocation	60,000
Solers	14900 Conference Center Drive	Route 28 South - A	Renewal / Expansion	52,698

Deliveries



Source: Colliers International, CoStar Group

Under Construction



Source: Colliers International, CoStar Group

All three classes of product were recipients of new demand during the quarter. The largest increase occurred in Class A space with 918,076 square feet of net absorption. This compares to 385,255 square feet absorbed during the fourth quarter of 2017. Demand for Class B product also increased, with 99,295 square feet taken off the market. This is a slight decline from last quarter when demand for this quality of space increased by 151,626 square feet.

While net absorption for Class A and B product increased significantly, demand for Class C remained relatively flat with just 19,096 square feet of net absorption. This compares to the previous quarter when 93,072 square feet of space returned to the market.

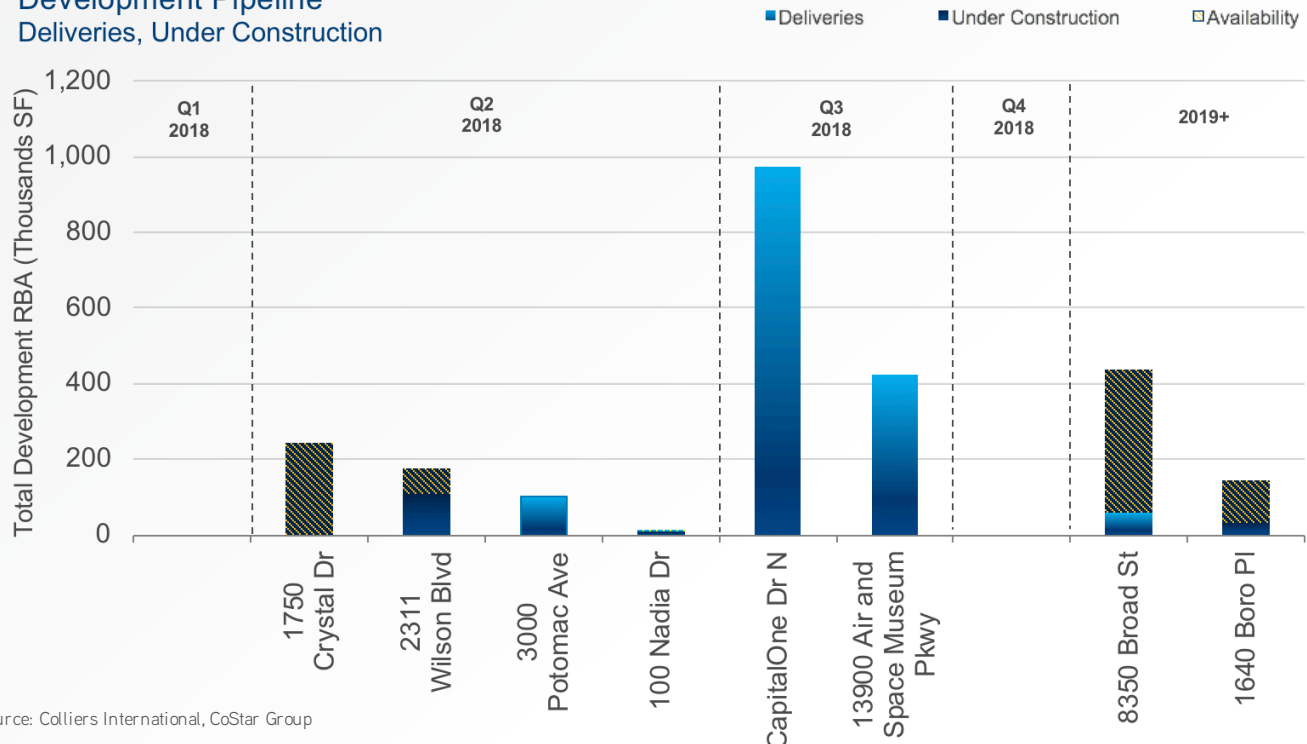
Supply

No new space delivered during the first quarter of 2018, marking the first quarter since 2010 when no buildings delivered in Northern Virginia. At the end of the quarter, 2.8 million square feet of space remained under construction, of which 73.4 percent was preleased. Capital One continued finalizing the facade of their building in Tysons Corner, which is expected to deliver during the second half of 2018 with the entire 975,000-square-foot building being occupied by the banking institution.

Peterson Companies will deliver the 480,000-square-foot building at 13900 Air and Space Museum Parkway in the Route 28 Corridor South submarket during the second half of the year. The Federal Government leased the entirety of the building.

While no buildings broke ground during the quarter, multiple projects are slated to commence in 2018. Construction of 4040 Wilson

Development Pipeline Deliveries, Under Construction



Source: Colliers International, CoStar Group

Boulevard, located in the R-B Corridor, is expected to start during the second quarter. The building, developed by the Shooshan Company, will have 240,000 square feet of office and will be anchored by AvalonBay. Leidos signed a lease at 1750 Presidents Street in Reston and signed a lease to occupy the entire building. It is expected to break ground later this year. Fannie Mae's lease of 850,000 square feet at Reston Gateway will prompt additional construction.

Vacancy

With a lack of deliveries and continued demand in Northern Virginia, the overall vacancy rate dropped 58 basis points to end the quarter at 17.3 percent. Vacancy rates fell across all classes of space decreased. The largest drop occurred in Class A space, where the vacancy rate fell from 18.8 to 17.7 percent during the quarter. The Class B vacancy rate dropped from 19.1 to 18.8 percent during the period, while Class C vacancy fell from 12.2 to 12.1 percent.

Rental Rates

During the quarter, the direct average asking rate increased from \$32.27 to \$32.43 per square foot. This marked a 42 cent per square foot increase when compared to the same period last year when the rental rate was \$32.01 per square foot across Northern Virginia. The combined asking rates rose in 12 of the 29 submarkets.

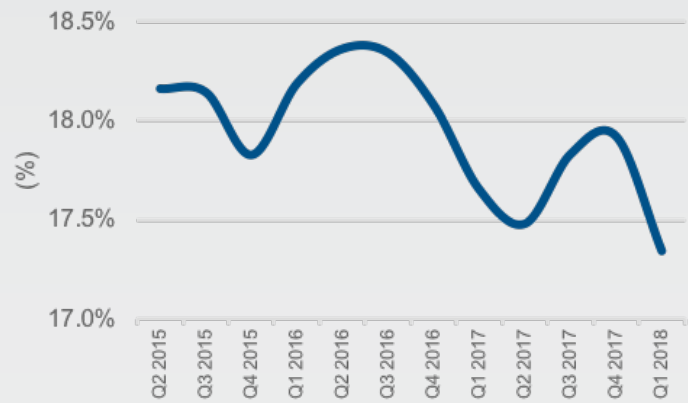
Class A rental rates were the only to increase out of the product classes. During the quarter, it rose from \$36.55 to \$37.14 per square foot. This compares to the same time last year when the rate stood at \$36.40 per square foot. The asking rates for Class B and C product decreased from \$29.63 to \$29.54 and from \$26.67 to \$25.82 per square foot, respectively.

Outlook

For the remainder of 2018, office-using jobs are expected to grow as the impact of renewed federal spending creates the need for more employees. As a result, demand is expected to grow at about the same pace as it occurred in 2017.

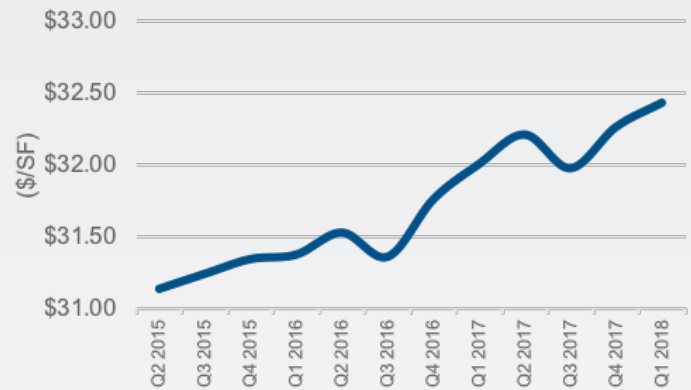
Led by the nearly one million square foot Capital One building in Tysons Corner, future deliveries are expected to complete largely leased up for the remainder of 2018. Due to the limited options for high quality space, tenant demand will prompt new construction. These projects are likely to be located in well amenitized areas adjacent to Metro.

Vacancy Rate



Source: Colliers International, CoStar Group

Direct Asking Rental Rate



Source: Colliers International, CoStar Group

Northern Virginia—Office Market—Class A | Q1 2018

MARKET	EXISTING INVENTORY (SF)	YTD NEW SUPPLY (SF)	YTD NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	YTD ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	5,763,447	-	-	-	20,684	20,684	11.0%	\$41.09
Eisenhower Ave Corridor	128,000	-	-	-	-	-	0.0%	n/a
I-395 Corridor*	2,674,222	-	-	-	27,574	27,574	38.3%	\$29.00
Old Town	745,672	-	-	100,000	1,994	1,994	11.4%	\$31.63
Alexandria City Total	7,526,806	-	-	100,000	50,252	50,252	18.1%	\$39.22
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	4,130,646	-	-	242,100	52,245	52,245	19.5%	\$38.85
Falls Church**	85,000	-	-	-	-	-	0.0%	n/a
Rosslyn/Ballston Corridor	15,267,800	-	-	175,000	74,480	74,480	25.3%	\$45.41
Arlington County/Falls Church Total	20,014,735	-	-	417,100	126,725	126,725	23.6%	\$44.02
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	200,000	-	-	-	-	-	40.6%	\$31.50
Fairfax/Oakton	4,215,674	-	-	-	13,978	13,978	26.1%	\$30.68
Herndon	7,141,205	-	-	-	400,622	400,622	18.2%	\$32.73
McLean	-	-	-	-	-	-	n/a	n/a
Merrifield	4,602,284	-	-	-	71,322	71,322	21.1%	\$33.52
Reston	11,080,340	-	-	179,152	-53,200	-53,200	12.2%	\$35.12
Route 28 Corridor South	9,010,397	-	-	480,000	66,952	66,952	7.5%	\$28.12
Springfield/Huntington	2,298,732	-	-	-	27,878	27,878	34.3%	\$37.28
Tysons Corner	14,543,400	-	-	1,555,419	80,250	80,250	13.9%	\$40.65
Vienna	451,324	-	-	-	4,299	4,299	9.3%	n/a
Fairfax Area Total	54,796,602	-	-	2,214,571	612,101	612,101	15.8%	\$34.89
LOUDOUN COUNTY								
Leesburg/West Loudoun	470,939	-	-	-	20,561	20,561	7.4%	\$29.50
Route 28 Corridor North	5,236,983	-	-	-	89,606	89,606	17.9%	\$25.93
Route 7 Corridor	1,112,203	-	-	-	-59	-59	14.2%	\$27.27
Loudoun County Total	6,820,125	-	-	-	110,108	110,108	16.6%	\$26.14
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	73,000	-	-	-	2,030	2,030	16.7%	\$18.50
Route 29/I-66 Corridor	624,325	-	-	-	3,959	3,959	2.2%	\$24.87
Woodbridge	323,172	-	-	-	12,901	12,901	30.2%	\$27.65
Prince William Area Total	1,020,497	-	-	-	18,890	18,890	12.1%	\$26.81
NORTHERN VIRGINIA TOTAL	90,178,765	-	-	2,731,671	918,076	918,076	17.7%	\$37.14

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

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

FIRST QUARTER 2018

OVERALL QUICK STATS



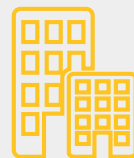
17.3%

Vacancy Rate



1,036,467

Absorption
(Square Feet)



0

New Deliveries
(Square Feet)



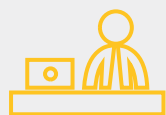
\$32.43

Direct Asking Rate
(\$/SF)

Northern Virginia—Office Market—Class B & C Q1 2018								
MARKET	EXISTING INVENTORY (SF)	NEW SUPPLY (SF)	YTD NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	YTD ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	2,021,862	-	-	-	-7,848	-7,848	12.5%	\$34.66
Eisenhower Ave Corridor	664,985	-	-	-	-6,052	-6,052	12.6%	\$24.10
I-395 Corridor*	5,994,987	-	-	-	-27,742	-27,742	33.3%	\$30.01
Old Town	4,954,688	-	-	-	-17,993	-17,993	11.1%	\$31.33
Alexandria City Total	10,803,984	-	-	-	-37,284	-37,284	17.6%	\$30.89
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	8,843,203	-	-	-	105,455	105,455	16.4%	\$34.61
Falls Church**	2,197,145	-	-	-	-9,949	-9,949	13.3%	\$24.11
Rosslyn/Ballston Corridor	9,576,877	-	-	-	45,877	45,877	22.5%	\$39.45
Arlington County/Falls Church Total	20,282,607	-	-	-	129,619	129,619	18.6%	\$36.66
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	1,671,540	-	-	-	12,845	12,845	8.9%	\$23.54
Fairfax/Oakton	9,365,742	-	-	-	13,862	13,862	17.1%	\$24.07
Herndon	5,002,981	-	-	-	113,032	113,032	15.8%	\$24.44
McLean	1,558,716	-	-	-	11,555	11,555	8.1%	\$31.47
Merrifield	4,117,978	-	-	-	-100,389	-100,389	15.0%	\$27.07
Reston	7,709,227	-	-	-	-66,422	-66,422	14.6%	\$27.70
Route 28 Corridor South	5,388,498	-	-	-	15,498	15,498	23.4%	\$24.26
Springfield/Huntington	5,811,913	-	-	-	-30,020	-30,020	14.6%	\$23.64
Tysons Corner	14,410,432	-	-	-	26,515	26,515	21.3%	\$29.31
Vienna	1,156,610	-	-	-	3,426	3,426	11.9%	\$28.30
Fairfax Area Total	59,360,793	-	-	-	-10,685	-10,685	18.3%	\$26.43
LOUDOUN COUNTY								
Leesburg/West Loudoun	1,836,700	-	-	-	4,820	4,820	5.8%	\$25.32
Route 28 Corridor North	4,369,124	-	-	-	17,043	17,043	15.6%	\$21.23
Route 7 Corridor	3,296,564	-	-	-	-20,785	-20,785	6.4%	\$24.34
Loudoun County Total	9,502,388	-	-	-	1,078	1,078	10.5%	\$22.29
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	1,885,355	-	-	16,000	30,621	30,621	7.3%	\$20.71
Route 29/I-66 Corridor	1,996,114	-	-	53,000	10,597	10,597	7.6%	\$17.69
Woodbridge	2,239,279	-	-	-	-5,555	-5,555	11.1%	\$23.22
Prince William Area Total	6,120,748	-	-	69,000	35,663	35,663	8.8%	\$20.12
NORTHERN VIRGINIA TOTAL	106,070,520	-	-	69,000	118,391	118,391	17.0%	\$28.86

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

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



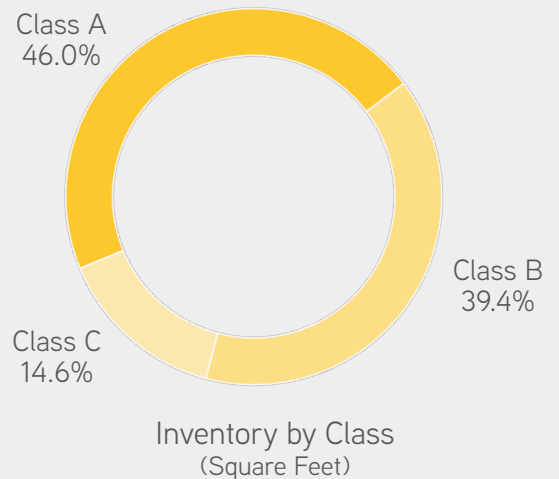
6,580

Office Jobs Gained



2.73

Under Construction
(Million Square Feet)



Northern Virginia—Office Market—All Classes | Q1 2018

MARKET	EXISTING INVENTORY (SF)	NEW SUPPLY (SF)	YTD NEW SUPPLY (SF)	UNDER CONSTRUCTION (SF)	ABSORPTION (SF)	YTD ABSORPTION (SF)	OVERALL VACANCY RATE	DIRECT ASKING RATE
ALEXANDRIA CITY								
Carlyle/King St Metro	7,785,309	-	-	-	12,836	12,836	11.4%	\$39.68
Eisenhower Ave Corridor	792,985	-	-	-	-6,052	-6,052	10.6%	\$24.10
I-395 Corridor*	8,669,209	-	-	-	-168	-168	34.9%	\$29.96
Old Town	5,700,360	-	-	100,000	-15,999	-15,999	11.2%	\$31.37
Alexandria City Total	18,330,790	-	-	100,000	12,968	12,968	17.8%	\$33.34
ARLINGTON COUNTY/FALLS CHURCH CITY								
Crystal City/Pentagon City	12,973,849	-	-	242,100	157,700	157,700	17.4%	\$35.91
Falls Church**	2,282,145	-	-	-	-9,949	-9,949	12.8%	\$24.11
Rosslyn/Ballston Corridor	24,844,677	-	-	175,000	120,357	120,357	24.2%	\$43.06
Arlington County/Falls Church Total	40,297,342	-	-	417,100	256,344	256,344	21.1%	\$40.29
FAIRFAX COUNTY/FAIRFAX CITY								
Annandale	1,871,540	-	-	-	12,845	12,845	12.3%	\$26.35
Fairfax/Oakton	13,581,416	-	-	-	27,840	27,840	19.9%	\$26.07
Herndon	12,144,186	-	-	-	513,654	513,654	17.2%	\$30.35
McLean	1,558,716	-	-	-	11,555	11,555	8.1%	\$31.47
Merrifield	8,720,262	-	-	-	-29,067	-29,067	18.2%	\$30.50
Reston	18,789,567	-	-	179,152	-119,622	-119,622	13.1%	\$31.21
Route 28 Corridor South	14,398,895	-	-	480,000	82,450	82,450	13.5%	\$25.65
Springfield/Huntington	8,110,645	-	-	-	-2,142	-2,142	20.2%	\$29.24
Tysons Corner	28,953,832	-	-	1,555,419	106,765	106,765	17.6%	\$33.83
Vienna	1,607,934	-	-	-	7,725	7,725	11.2%	\$28.30
Fairfax Area Total	114,157,395	-	-	2,214,571	601,416	601,416	17.1%	\$30.08
LOUDOUN COUNTY								
Leesburg/West Loudoun	2,307,639	-	-	-	25,381	25,381	6.1%	\$25.82
Route 28 Corridor North	9,606,107	-	-	-	106,649	106,649	16.9%	\$23.98
Route 7 Corridor	4,408,767	-	-	-	-20,844	-20,844	8.4%	\$25.62
Loudoun County Total	16,322,513	-	-	-	111,186	111,186	13.0%	\$24.34
PRINCE WILLIAM COUNTY/MANASSAS CITY/MANASSAS PARK								
Manassas	1,958,355	-	-	16,000	32,651	32,651	7.6%	\$20.59
Route 29/I-66 Corridor	2,620,439	-	-	53,000	14,556	14,556	6.3%	\$18.16
Woodbridge	2,562,451	-	-	-	7,346	7,346	13.5%	\$24.87
Prince William Area Total	7,141,245	-	-	69,000	54,553	54,553	9.2%	\$21.41
NORTHERN VIRGINIA TOTAL	196,249,285	-	-	2,800,671	1,036,467	1,036,467	17.3%	\$32.43

FOR MORE INFORMATION

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