

NORTHERN VIRGINIA OFFICE  
**MARKET REPORT**  
 SECOND QUARTER 2014



**Market Still Contracting**  
 Tech Growth Slow in Coming

**MARKET SUMMARY**

At the end of the first half of 2014, the Northern Virginia office market under performed relative to most suburban markets in the United States. Because of the market's reliance on the leasing from the Federal Government and its associated contractors, the cuts to federal spending, which commenced at the beginning of the year greatly impacted the Northern Virginia's office market. Over the last 18 months, the Federal Government and the contractors have been 'right-sizing' their office footprint and workforce to reflect the new spending levels reflected within the new Federal budget.

Additionally, when the Federal Government has signed leases they have typically been lease renewals or consolidations. During the second quarter, the Federal Government signed five leases for a total of 183,268 square feet. Of these all but one was a renewal. The only new lease was executed on behalf of the Bureau of Safety and Environmental Enforcement. Their lease was for 82,116 square feet at 45600 Woodland Road in the Route 28 Corridor North Submarket, but they will be leaving behind more space along the Dulles Toll Road.

Contractors have been extremely impacted by the current spending environment. Almost every quarter since the summer of 2011, government contractors have returned space to the market. This quarter USIS, renewed for 32,000 square feet at 7799 Leesburg Pike in Tysons Corner. However, they downsized by approximately 65,000 square feet.

Downsizing from contractors is expected to continue well into the foreseeable future. Booz Allen Hamilton is considering vacating One Dulles Tower in Herndon and consolidating into their underutilized facility in Springfield. If this happens the entire 401,124-square-foot tower would be returned to the market.

Tenants' flight to efficiency and value have also contributed to lower overall demand for office space. Most tenants in most markets across the United

**MARKET OUTLOOK**

Q2 2014    Q3 2014\*

VACANCY



NET ABSORPTION



CONSTRUCTION



RENTAL RATE

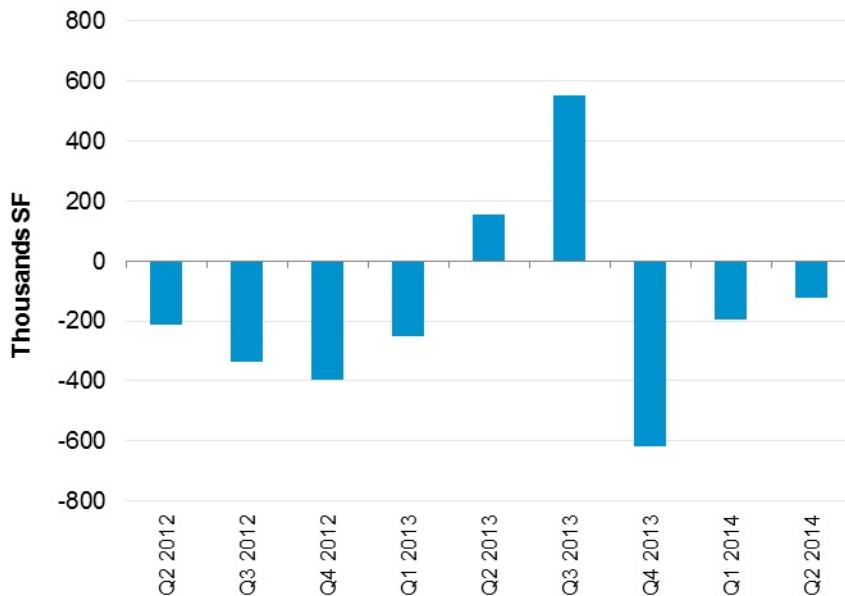


**MARKET INDICATORS**

Q2 2013    Q2 2014

VACANCY RATE	16.3%	17.8%
ABSORPTION YTD	-96,910	-320,400
DEVELERIES YTD	911,100	1,315,536
UNDER CONSTRUCTION	3,944,874	3,062,279
ASKING RENTS/SF	\$31.48	\$31.59

States have been downsizing their footprint by relocating out of older, less efficient buildings in less desirable locations and moving into newer, trophy quality buildings that not only operate more energy efficiently but allow for more compact space planning. Even though they typically pay more per square foot, tenants actually pay less overall. All of this has led to lower demand for office space within the Northern Virginia Office Market, and points to a recovery not materializing in 2014.



### ECONOMIC OVERVIEW

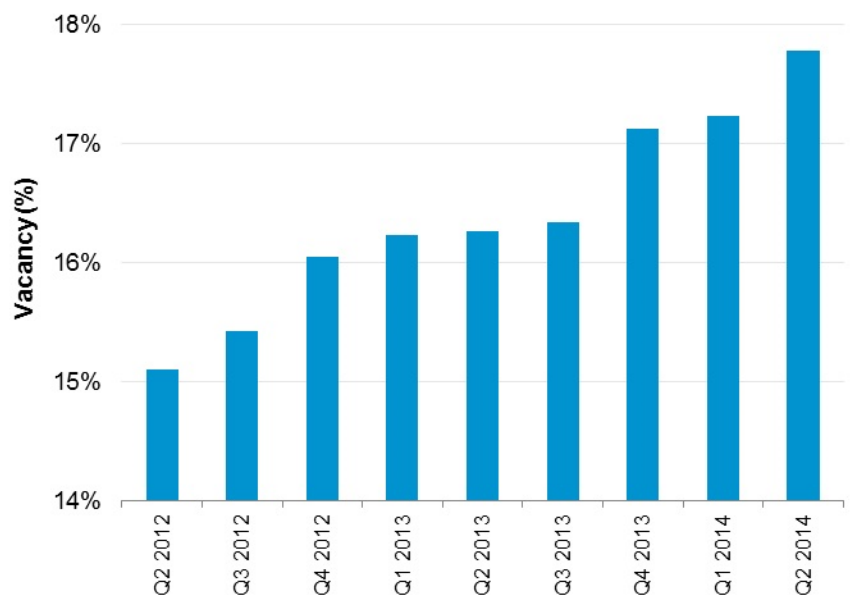
Job creation in Northern Virginia has slowed dramatically recently. During last 12 months, only 2,300 jobs were created. This compares to 15,400 jobs created during same period in 2013. While there has been slow growth overall, employment has been contracting in the office-using sectors of Northern Virginia's economy. During the last 12 months, 1,500 jobs were lost. Interestingly enough, contraction in the professional services, business services, and information industries contributed the most to this decline, returning 5,200 jobs during. These losses were offset by jobs created by government and financial institutions, which generated 2,600 and 1,100 jobs, respectively. The Federal Government has been placing the jobs it created into government owned facilities or on to military base. As a result, they have not generated demand for office space like it did in the past.

### ABSORPTION

During the second quarter of 2014, 125,152 square feet of space was returned to the market, bringing net absorption for 2014 to negative 320,400 square feet. However, not all qualities of space, nor locations shared in the decline. Net absorption in Class A product, for example was 595,329 square feet during the second quarter. All of these gains were offset by tenants unloading space in Class B and C product. Additionally, three submarkets experienced net absorption greater than 50,000 square feet: Route 28 Corridor South (263,608 square feet), Rosslyn-Ballston Corridor (249,610 square feet) and Route 7 Corridor (78,207 square feet). Another seven submarkets also had overall positive absorption.

### VACANCY

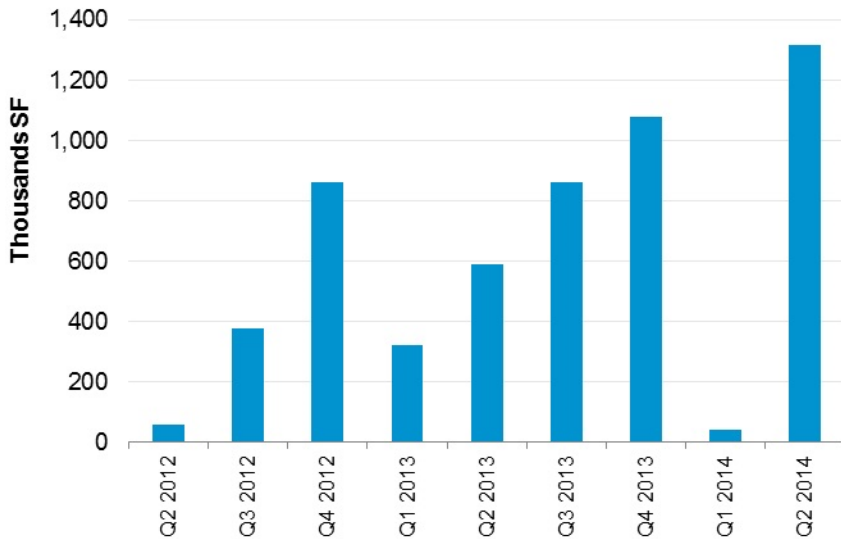
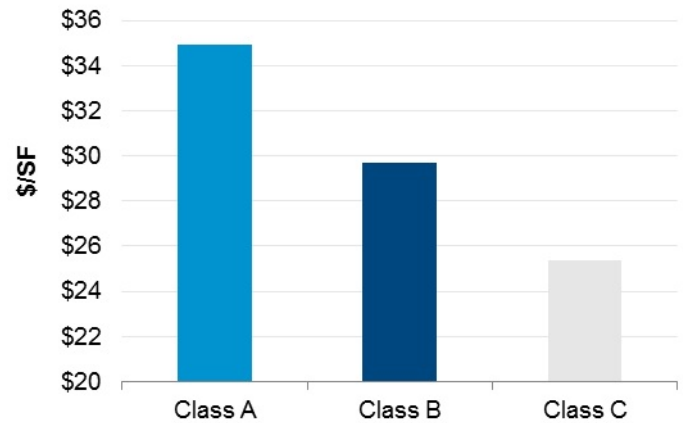
Not only was overall demand less in the second quarter of 2014, but 1.3 million square feet of space of new deliveries



was added to the office market. As a result, the overall vacancy rate increased from 17.2 percent to 17.7 percent. This is the twelfth consecutive quarterly increase in vacancy rates. Currently, only three submarkets in Northern Virginia have vacancy rates less than 10 percent. The lowest vacancy rate is in McLean (6.7 percent). The highest vacancy rate is in I-395 Corridor (31.1 percent).

### RENTAL RATES

During the quarter, the direct average asking rate decreased from \$32.35 per square foot to \$31.59 per square foot. Currently in all of Northern Virginia, only the Rosslyn-Ballston Corridor has an average rental rate greater than \$40.00 per square foot. The lowest rental rates can be found in Prince William County (\$21.63), Falls Church (\$22.09), Route 28 Corridor North (\$23.36) and Fairfax City (\$23.53).



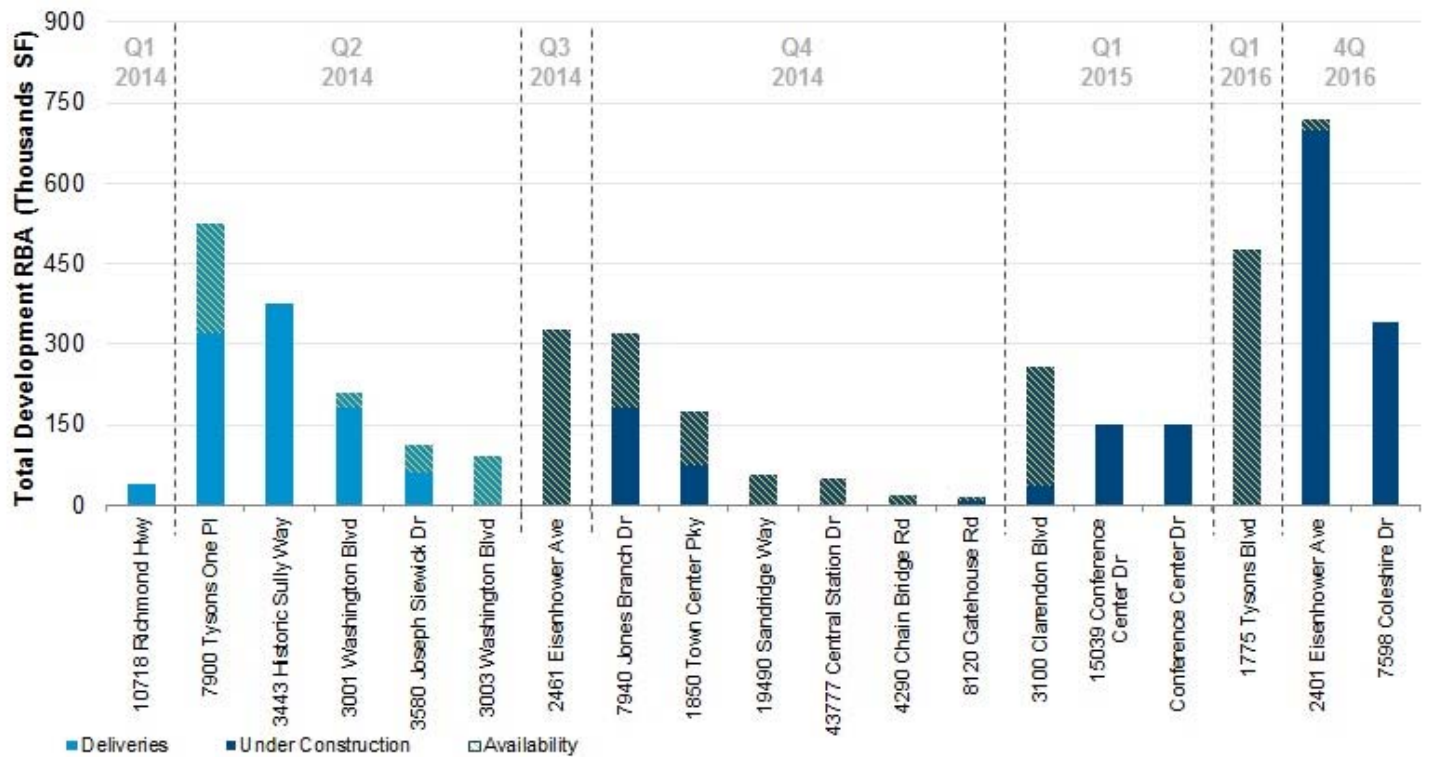
Even with lower asking rates, landlords continue to offer large concession packages to attract and retain tenants. It is typical for tenants to receive \$8 to \$10 per square foot in improvement allowances per year of term, and eight to twelve months of free rent on new leases. Even on renewals improvement allowances remain high and free rent is common place on longer term leases.

### DEVELOPMENT ACTIVITY

During the second quarter, five buildings totaling 1.3 million square feet delivered. This space was largely leased at the time of deliver with 71.2% of the space committed. The most significant of these buildings was Tysons Tower, a 524,979-square-foot office tower. The building delivered 61.2 percent leased with Intelsat occupying a large portion of the building.

### Significant Deliveries

Project	Submarket	RBA	Lead Tenant
3001 & 3003 WASHINGTON BLVD	CLARENDON/COURTHOUSE	302,790	CENTER FOR NAVAL ANALYSES
TYSONS TOWER	TYSONS CORNER	524,979	INTELSAT, DELOITTE & GTT
DULLES DISCOVERY—BUILDING 4	ROUTE 28 CORRIDOR SOUTH	375,250	INTELLIGENCE AGENCY
INOVA MEDICAL OFFICE—BUILDING IV	FAIRFAX CENTER	112,507	MEDICAL USERS



### Significant Q2 2014 Construction Projects

Project	Submarket	RBA	Delivery	Lead Tenant
Hoffman Tower	Eisenhower Avenue Corridor	328,626	Q3 2014	None
Tysons Overlook	Tysons Corner	321,965	Q4 2014	LMI
15039 Conference Center Drive Phases 1 & 2	Route 28 Corridor South	300,000	Q1 2015	Intelligence Agency
3100 Clarendon Boulevard	Clarendon/Courthouse	259,331	Q1 2015	None
1775 Tysons Boulevard	Tysons Corner	476,913	Q1 2016	None
NSF Headquarters	Eisenhower Avenue Corridor	720,000	Q4 2016	National Science Foundation
Mitre 4	Tysons Corner	340,000	Q4 2016	Mitre

Recent Lease Transactions				
Tenant	Address	Submarket	Size (SF)	Type
TASC	4801 & 4803 Stonecroft Boulevard	Route 28 Corridor South	292,00	Renewal/Consolidation
Parsons	5875 & 5885 Trinity Center Parkway	Route 28 Corridor South	102,524	Renewal
Bureau of Safety & Environmental Enforcement	45000 Woodland Road	Route 28 Corridor North	82,116	Relocation
RSA Security	10700 Parkridge Boulevard	Reston	47,742	Renewal/Expansion
MicroStrategy, Inc.	1850 Towers Crescent Plaza	Tysons Corner	43,047	Expansion

Even with these deliveries, 13 buildings totaling 3.1 million square feet were under construction at the end of the second quarter. This compares to 3.9 million square feet at the end of the second quarter of 2013.

The National Science Foundation headquarters broke ground during the quarter. The 720,000-square-foot building will deliver at the end of 2016.

## OUTLOOK

The markets around the country where office markets are recovering are closely tied to energy, education and technology industries. The Washington, DC Metropolitan area, especially Northern Virginia, is arguably the East Coast's pre-eminent technology market. In fact, during the second quarter a number of technology companies expanded. RSA Security expanded by 19,341 square feet at 10700 Parkridge Boulevard, Microsoft expanded by 22,673 at Discovery Square.

While technology sector is expected to be the catalyst for a market recovery in Northern Virginia, baseline issues remain that need to be resolved before there is a systemic change in fundamentals. First, the fallout from government spending cuts is still being realized and will continue to force both Federal Government agencies and the government contractors to consolidate. Additionally, Exxon Mobile will vacate their regional headquarters building and leave behind over one million square feet of space later in 2014. Even with some expansion in the technology sector of the economy, it will be difficult for Northern Virginia to fully recover giving these substantial headwinds.

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NORTHERN VIRGINIA Q2 MARKET STATS

NORTHERN	Existing Properties			Vacancy			Activity		Absorption		Rents
	Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current Qtr SF	Net Absorption YTD	Weight Avg Asking Lease Rate
A	528	95,780,502	16.3%	1.6%	17.8%	17.3%	1,255,321	595,329	505,979	\$	34.91
B	970	71,047,566	18.7%	0.6%	19.3%	18.7%	184,326	-450,946	-473,038	\$	29.70
C	876	28,992,435	13.3%	0.5%	13.8%	13.3%	-	-269,535	-353,341	\$	25.38
All Classes	2,374	195,820,503	16.7%	1.0%	17.8%	17.2%	1,439,647	-125,152	-320,400	\$	31.59

FAIRFAX COUNTY	Existing Properties			Vacancy			Activity		Absorption		Rents
	Submarket/Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current Qtr SF	Net Absorption YTD	Weight Avg Asking Lease Rate
<b>Annandale</b>											
A	1	200,000	14.4%	7.2%	21.6%	21.6%	-	-	-	\$	31.50
B	8	381,964	7.7%	0.9%	8.6%	9.9%	-	5,022	5,161	\$	23.68
C	45	1,289,576	10.7%	0.0%	10.7%	9.8%	-	-11,168	-7,197	\$	22.83
All Classes	54	1,871,540	10.5%	1.0%	11.4%	11.1%	-	-6,146	-2,036	\$	25.21
<b>Fairfax/Oakton</b>											
A	32	4,949,540	13.3%	0.8%	14.1%	14.2%	26,269	100,133	76,234	\$	30.46
B	89	5,849,064	17.3%	0.3%	17.7%	17.0%	15,316	-38,920	-81,002	\$	23.87
C	94	2,604,766	8.9%	0.3%	9.2%	8.7%	-	-11,926	-34,490	\$	20.01
All Classes	215	13,403,370	14.2%	0.5%	14.7%	14.4%	41,585	49,287	-39,258	\$	26.15
<b>Falls Church</b>											
A	2	128,250	1.5%	0.0%	1.5%	1.5%	-	-	-	\$	29.50
B	34	1,576,434	22.9%	2.4%	25.3%	18.4%	-	-101,057	-76,090	\$	22.84
C	33	701,442	10.6%	0.5%	11.1%	9.3%	-	-12,713	5,584	\$	19.89
All Classes	69	2,406,126	18.2%	1.7%	19.9%	14.8%	-	-113,770	-70,506	\$	22.09
<b>Herdndon</b>											
A	47	7,940,924	8.4%	1.3%	9.7%	10.7%	58,555	79,045	20,792	\$	29.78
B	51	3,201,128	15.3%	0.3%	15.6%	13.3%	-	-76,157	-26,157	\$	22.80
C	38	1,002,094	9.5%	0.3%	9.7%	8.1%	-	-16,586	-10,019	\$	19.99
All Classes	136	12,144,146	10.3%	1.0%	11.3%	11.2%	58,555	-13,698	-15,384	\$	26.80
<b>McLean</b>											
A	-	-	n/a	n/a	n/a	n/a	-	-	-	\$	n/a
B	13	498,725	6.9%	0.0%	6.9%	6.2%	-	-3,125	13,120	\$	34.33
C	48	1,059,991	6.6%	0.0%	6.6%	7.0%	-	3,957	19,784	\$	27.96
All Classes	61	1,558,716	6.7%	0.0%	6.7%	6.7%	-	832	32,904	\$	31.53
<b>Merrifield</b>											
A	29	5,369,136	15.3%	2.1%	17.4%	17.1%	18,679	-15,795	-20,343	\$	32.00
B	31	3,167,991	10.4%	0.0%	10.5%	10.8%	19,928	9,931	34,500	\$	25.86
C	44	1,284,322	10.0%	0.5%	10.6%	12.2%	-	20,603	10,724	\$	26.24
All Classes	104	9,821,449	13.0%	1.2%	14.3%	14.4%	38,607	14,739	24,881	\$	29.65
<b>Reston</b>											
A	62	11,085,261	10.2%	3.4%	13.6%	13.6%	108,362	-2,210	284,496	\$	31.33
B	72	5,836,625	21.0%	1.2%	22.2%	16.8%	56,490	-316,623	-360,565	\$	27.21
C	55	1,827,784	24.2%	0.2%	24.4%	22.6%	-	-32,967	-35,373	\$	22.90
All Classes	189	18,749,670	14.9%	2.4%	17.3%	15.5%	164,852	-351,800	-111,442	\$	28.46
<b>Route 28 Corridor South</b>											
A	56	8,753,878	17.0%	0.2%	17.1%	17.3%	430,007	327,161	380,187	\$	27.50
B	68	4,175,558	22.3%	0.7%	23.0%	22.0%	-	-40,664	-65,975	\$	23.38
C	36	1,100,761	10.7%	6.0%	16.7%	14.6%	-	-22,889	-23,622	\$	17.60
All Classes	160	14,030,197	18.0%	0.8%	18.8%	18.5%	430,007	263,608	290,590	\$	25.50
<b>Springfield</b>											
A	18	2,435,400	33.4%	5.9%	39.4%	37.8%	14,191	-37,829	7,885	\$	38.98
B	43	1,988,224	20.0%	0.3%	20.3%	20.8%	11,768	8,342	21,443	\$	23.09
C	83	2,590,162	13.6%	0.0%	13.6%	13.2%	-	-9,205	-14,189	\$	21.20
All Classes	144	7,013,786	22.3%	2.1%	24.5%	23.9%	25,959	-38,692	15,139	\$	29.26
<b>Tysons Corner</b>											
A	50	12,875,214	12.6%	1.1%	13.7%	9.9%	91,247	-23,447	-95,245	\$	36.19
B	104	13,439,846	20.6%	0.7%	21.3%	20.0%	22,189	-169,234	-377,092	\$	29.54
C	39	2,394,995	21.2%	0.1%	21.4%	21.9%	-	12,399	8,500	\$	23.92
All Classes	193	28,710,055	17.1%	0.8%	17.9%	15.7%	113,436	-180,282	-463,837	\$	30.71
<b>Fairfax County</b>											
A	304	55,945,841	14.1%	1.7%	15.8%	15.4%	747,310	617,004	843,952	\$	31.81
B	525	41,912,772	19.0%	0.7%	19.7%	18.0%	125,691	-718,844	-894,172	\$	27.08
C	558	16,850,945	14.0%	0.6%	14.6%	14.1%	-	-80,367	-86,024	\$	22.40
All Classes	1,387	114,709,558	15.9%	1.1%	17.0%	16.1%	873,001	-182,207	-136,244	\$	28.54

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ARLINGTON COUNTY

Existing Properties			Vacancy				Activity		Absorption		Rents
Submarket/Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current QtrSF	Net Absorption YTD	Weight Avg Asking Lease Rate	
R-B Corridor											
A	63	15,967,043	17.5%	1.0%	18.5%	17.7%	240,631	120,405	-97,244	\$ 44.12	
B	43	7,108,234	21.7%	0.2%	21.9%	25.1%	-	227,968	225,859	\$ 40.13	
C	32	1,614,632	20.3%	0.9%	21.2%	15.1%	-	-98,763	-106,110	\$ 33.95	
All Classes	138	24,689,909	18.9%	0.8%	19.6%	19.7%	240,631	249,610	22,505	\$ 41.50	
Crystal City/Pentagon City											
A	20	6,165,974	29.7%	0.5%	30.2%	29.4%	116,298	-51,197	-46,220	\$ 40.92	
B	12	3,453,679	26.8%	1.6%	28.3%	28.4%	44,240	3,904	-21,089	\$ 36.89	
C	18	3,835,099	13.7%	0.5%	14.2%	16.1%	-	-70,574	-101,360	\$ 35.02	
All Classes	50	13,454,752	24.4%	0.8%	25.1%	25.2%	160,538	-117,867	-168,669	\$ 39.04	
Arlington County											
A	86	22,646,452	20.8%	0.9%	21.7%	21.0%	356,929	69,208	-140,349	\$ 42.57	
B	58	10,642,472	23.4%	0.6%	24.0%	26.2%	44,240	231,872	204,010	\$ 38.81	
C	64	6,161,455	14.4%	0.7%	15.1%	14.8%	-	-160,277	-211,538	\$ 34.12	
All Classes	208	39,450,379	20.5%	0.8%	21.3%	21.4%	401,169	140,803	-147,877	\$ 40.31	

ALEXANDRIA CITY

Existing Properties			Vacancy				Activity		Absorption		Rents
Submarket/Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current QtrSF	Net Absorption YTD	Weight Avg Asking Lease Rate	
Old Town Alexandria											
A	34	3,515,453	14.4%	2.5%	16.9%	16.2%	41,503	-22,685	-21,811	\$ 35.83	
B	103	4,220,083	9.7%	0.6%	10.2%	10.5%	-	12,306	71,907	\$ 28.36	
C	57	1,233,414	7.5%	0.2%	7.7%	7.6%	-	-835	104	\$ 27.52	
All Classes	194	8,968,950	11.2%	1.3%	12.5%	12.4%	41,503	-11,214	50,200	\$ 31.94	
I-395/Eisenhower Ave											
A	26	7,623,313	20.2%	2.2%	22.4%	23.0%	-	48,417	23,009	\$ 33.00	
B	44	4,792,221	27.7%	0.3%	28.0%	28.1%	-	6,912	106,312	\$ 30.46	
C	53	1,736,335	8.2%	0.5%	8.7%	9.6%	-	16,341	8,504	\$ 22.59	
All Classes	123	14,151,869	21.3%	1.3%	22.6%	23.1%	-	71,670	137,825	\$ 30.94	
Alexandria City											
A	52	8,823,417	15.3%	2.9%	18.2%	16.3%	53,966	-160,064	-187,713	\$ 35.33	
B	136	7,502,185	17.6%	0.5%	18.1%	18.2%	-	12,579	162,596	\$ 29.06	
C	85	2,031,252	9.5%	0.1%	9.6%	9.9%	-	4,946	14,526	\$ 24.18	
All Classes	273	18,356,854	15.6%	1.6%	17.2%	16.4%	53,966	-142,539	-10,591	\$ 30.76	

LOUDOUN COUNTY

Existing Properties			Vacancy				Activity		Absorption		Rents
Submarket/Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current QtrSF	Net Absorption YTD	Weight Avg Asking Lease Rate	
Eastern Loudoun											
A	57	6,476,515	23.1%	1.3%	24.4%	24.7%	82,116	21,517	-63,587	\$ 25.33	
B	130	7,057,228	12.1%	0.4%	12.5%	12.6%	-	11,085	11,104	\$ 20.21	
C	17	607,478	4.5%	0.0%	4.5%	4.5%	-	-	-2,850	\$ 25.02	
All Classes	204	14,141,221	16.8%	0.8%	17.6%	17.8%	82,116	32,602	-55,333	\$ 23.92	
Loudoun County											
A	67	7,127,533	21.7%	1.2%	22.9%	23.7%	82,116	57,408	-28,489	\$ 25.36	
B	146	7,555,919	12.5%	0.4%	12.8%	13.1%	-	15,779	14,504	\$ 20.24	
C	59	1,503,108	11.4%	0.0%	11.4%	10.4%	-	-15,003	-45,285	\$ 24.07	
All Classes	272	16,186,560	16.4%	0.7%	17.1%	17.5%	82,116	58,184	-59,270	\$ 23.96	

PWC

Existing Properties			Vacancy				Activity		Absorption		Rents
Submarket/Class	Bldgs	RBA	Direct Vacancy Rate	Sublet Vacancy Rate	Total Vacancy Rate	Total Vacancy Rate Prior Qtr	Leasing Activity SF*	Net Absorption Current QtrSF	Net Absorption YTD	Weight Avg Asking Lease Rate	
Prince William County											
A	19	1,237,259	8.3%	1.0%	9.2%	10.2%	15,000	11,773	18,578	\$ 28.08	
B	105	3,434,218	17.0%	0.3%	17.2%	17.5%	14,395	7,668	40,024	\$ 21.64	
C	110	2,445,675	9.3%	0.3%	9.6%	8.8%	-	-18,834	-25,020	\$ 18.98	
All Classes	234	7,117,152	12.8%	0.4%	13.2%	13.2%	29,395	607	33,582	\$ 21.63	



## DEFINITIONS OF KEY TERMS FOUND IN THIS REPORT

### Deliveries:

Buildings that complete construction during a specified period of time. In order for space to be considered delivered, a certificate of occupancy must have been issued for the property.

### Direct Space:

Space that is being offered for lease directly from the landlord or owner of a building, as opposed to space being offered in a building by another tenant (or broker of a tenant) trying to sublet a space that has already been leased.

### Existing Inventory:

The square footage of buildings that have received a certificate of occupancy and are able to be occupied by tenants. It does not include space in buildings that are either planned, under construction or under renovation.

### Leasing Activity:

The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction, or under renovation buildings.

### Rentable Building Area (RBA):

The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. This report tracks buildings with 10,000 square feet or more of space. Includes competitive space in Class A, B and C single- and multi-tenanted buildings. Excludes buildings that are owned and operated by the Federal Government

### Sublease Space:

Space that has been leased by a tenant and is being offered for lease back to the market by the tenant with the lease obligation. Sublease space is sometimes referred to as sublet space.

### Vacant Space:

Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space.

### Inventory:

Includes all existing multi- or single-tenant leased or owner-occupied office properties greater than or equal to 10,000 square feet (Net rentable area). Does not include government owned buildings.

### Net Absorption:

The net change in occupied space over a given period of time. Unless otherwise noted, net Absorption includes direct and sublease space.

### Weighted Average Asking Rental Rates:

Average rental rates weighted by the total square feet available for direct lease. Data is based on Full Service Gross rents, and includes all costs associated with occupying the space, including taxes, insurance, maintenance, janitorial services and utilities. Reports on an annual per square foot basis.

## 485 offices in 63 countries on 6 continents

United States: 146

Canada: 44

Latin America: 25

Asia Pacific: 186

EMEA: 84

- \$2.1 billion in annual revenue
- 1.46 billion square feet under management
- Over 15,800 professionals

### FOR MORE INFORMATION, CONTACT:

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