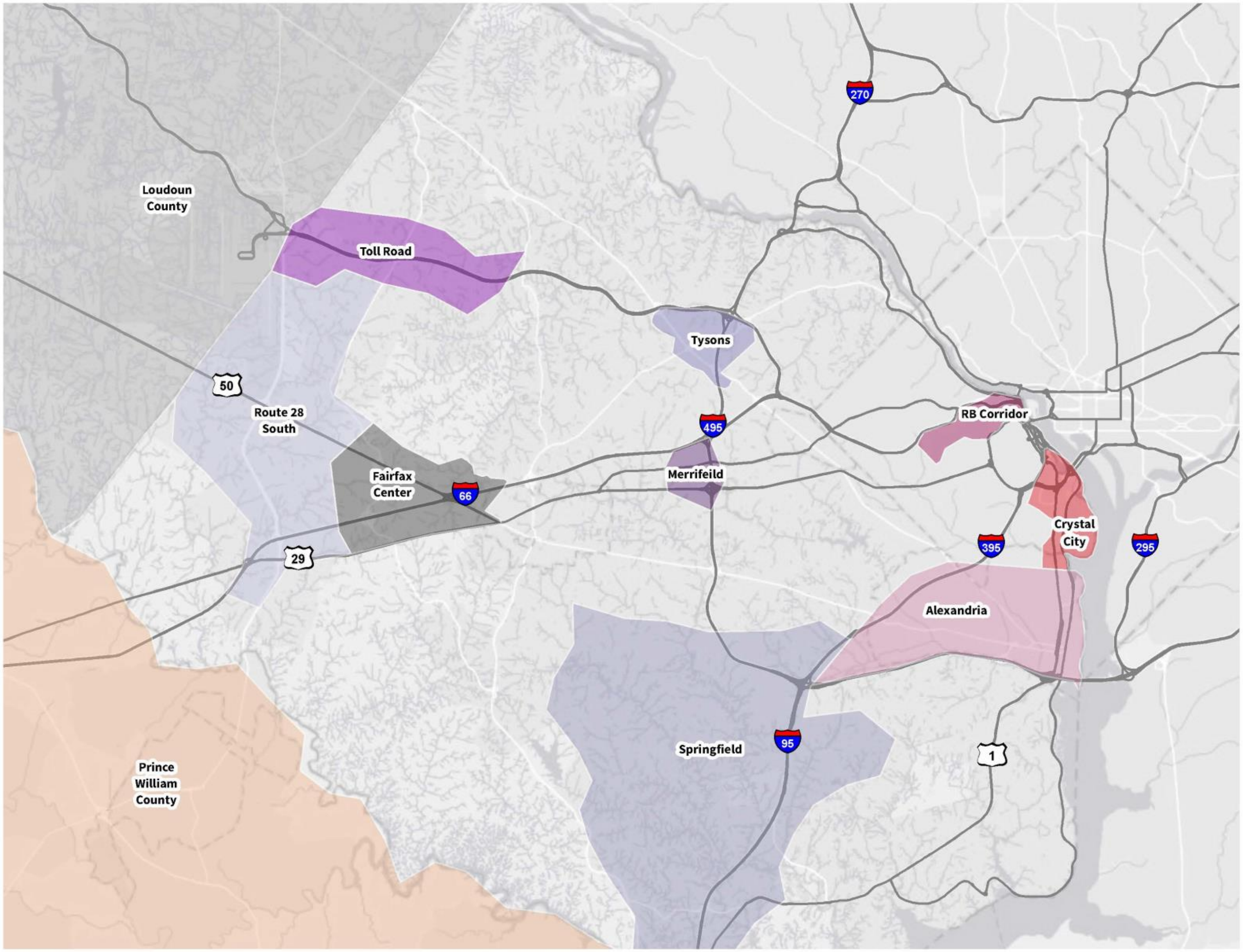
Northern Virginia

Office Observations

Q2 2019

Northern Virginia submarket map



Source: JLL Research

Northern Virginia observations

1

Absorption surges to nearly 1.2 m.s.f. – most since 2006

- Led by tech demand across the Herndon-to-Crystal City corridor, Northern Virginia carried strong momentum from 2018, posting 1,909,412 s.f. of positive net absorption through the first half of the year. The growth was spread out across submarkets, with five different submarkets posting over 100,000 s.f. of positive net absorption: Tysons, Crystal City, Reston, Route 28 South, and Herndon.
- Rather than one large full-building move-in, multiple new deals and expansions in the 40,000-50,000 s.f. range have pushed growth. For instance, health IT company Cerner moved into 38,075 s.f. at 1812 N Moore in Rosslyn and media company Discovery Communications moved into 41,705 s.f. at 22980 Indian Creek Drive in Loudoun.

2

Speculative development options limited as construction pipeline is dominated by BTS projects

- On the supply side, only one building delivered this quarter: 44921 George Washington Boulevard, a 46,002-s.f. building in Loudoun. Meanwhile, continuing trends over the last decade, two buildings were removed from supply this quarter due to owner-occupier purchases.
- 1902 Reston Metro Plaza broke ground this quarter. It is the second spec building currently under construction at Comstock's Reston Station project. Aside from those two buildings, there is only 142,690 s.f. of available under construction space in the rest of Northern Virginia.

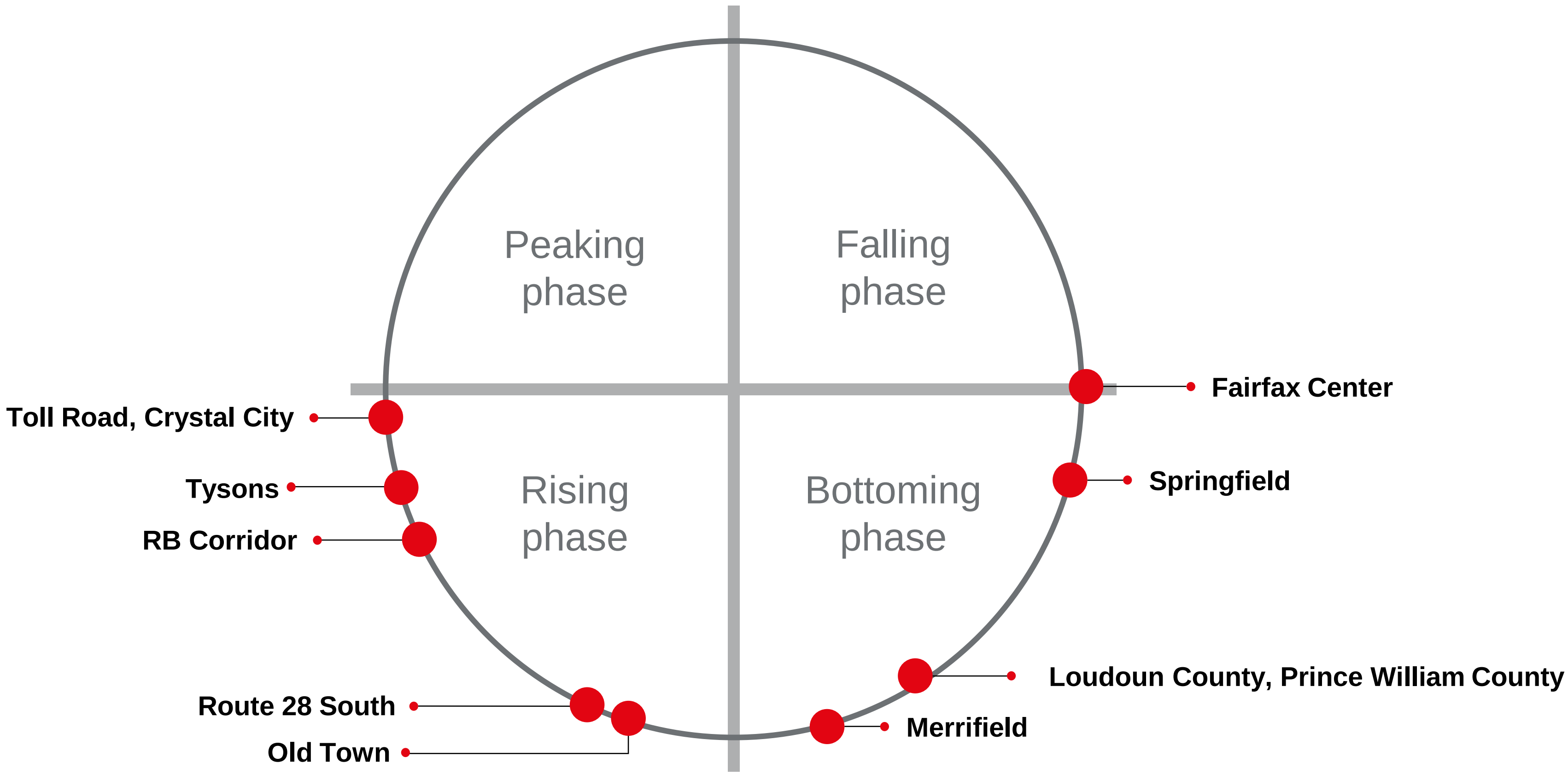
3

Tenant demand robust as 33 tenants signed leases > 20,000 s.f.

- Eight deals over 50,000 s.f. were signed in Q2. The largest deal of the quarter was a tech contractor taking over 250,000 s.f. in Herndon while Freddie Mac signed a full-building lease to expand by 152,242 s.f. at 1550 Westbranch Drive in Tysons.
- Coworking leasing momentum also continued as Spaces signed a 51,422-s.f. lease at 1640 Boro Place, WeWork expanded by 61,525 s.f. at 1775 Tyson Boulevard and ALX Community signed a 25,000-s.f. lease for a new location at 201 N Union Street in Alexandria.

Northern Virginia clock

While HQ2 is expected to drive growth that fundamentally changes the office landscape, it is one of the market's many strengths: more conventional sectors like government, contractor and finance have driven the majority of leasing activity, with tech accounting for roughly 40%

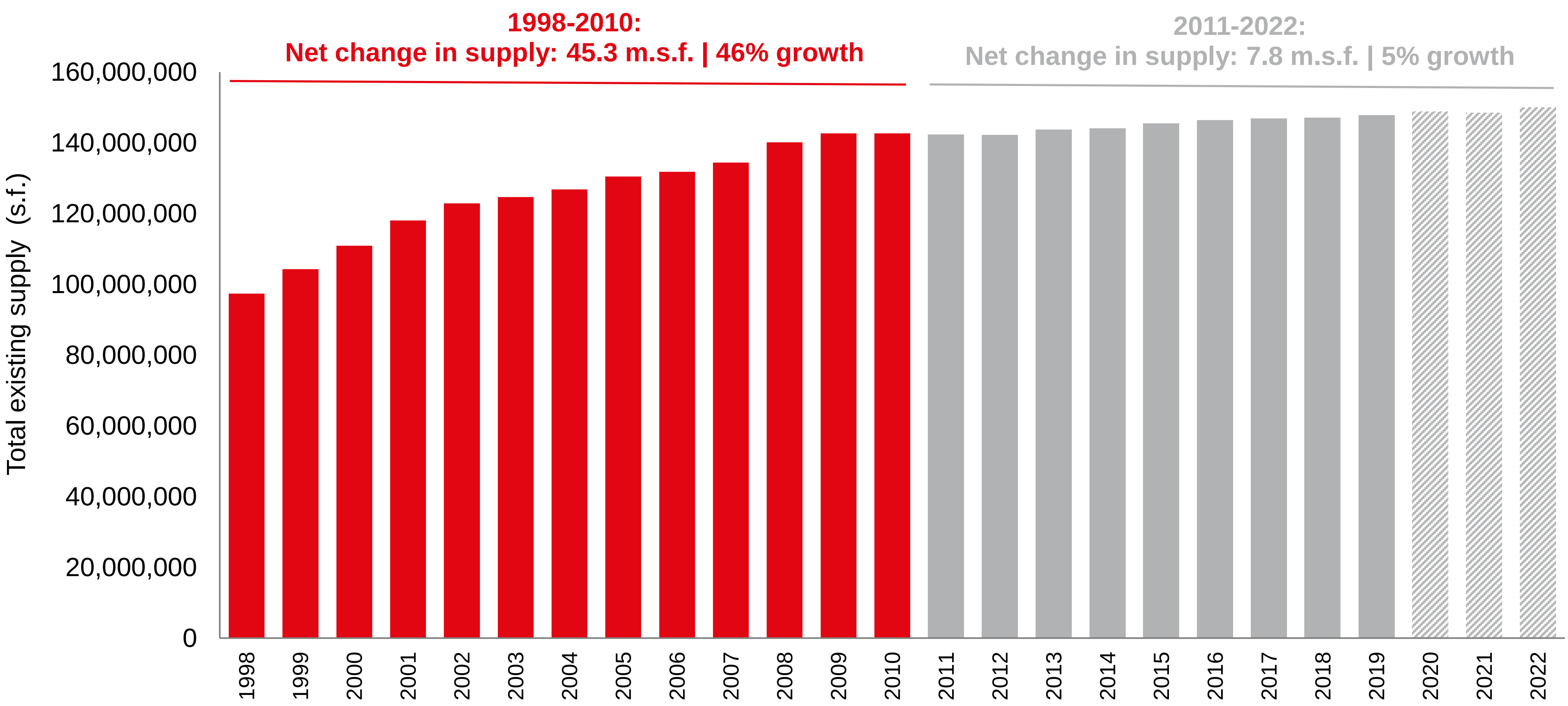


Source: JLL Research

Supply

Northern Virginia supply

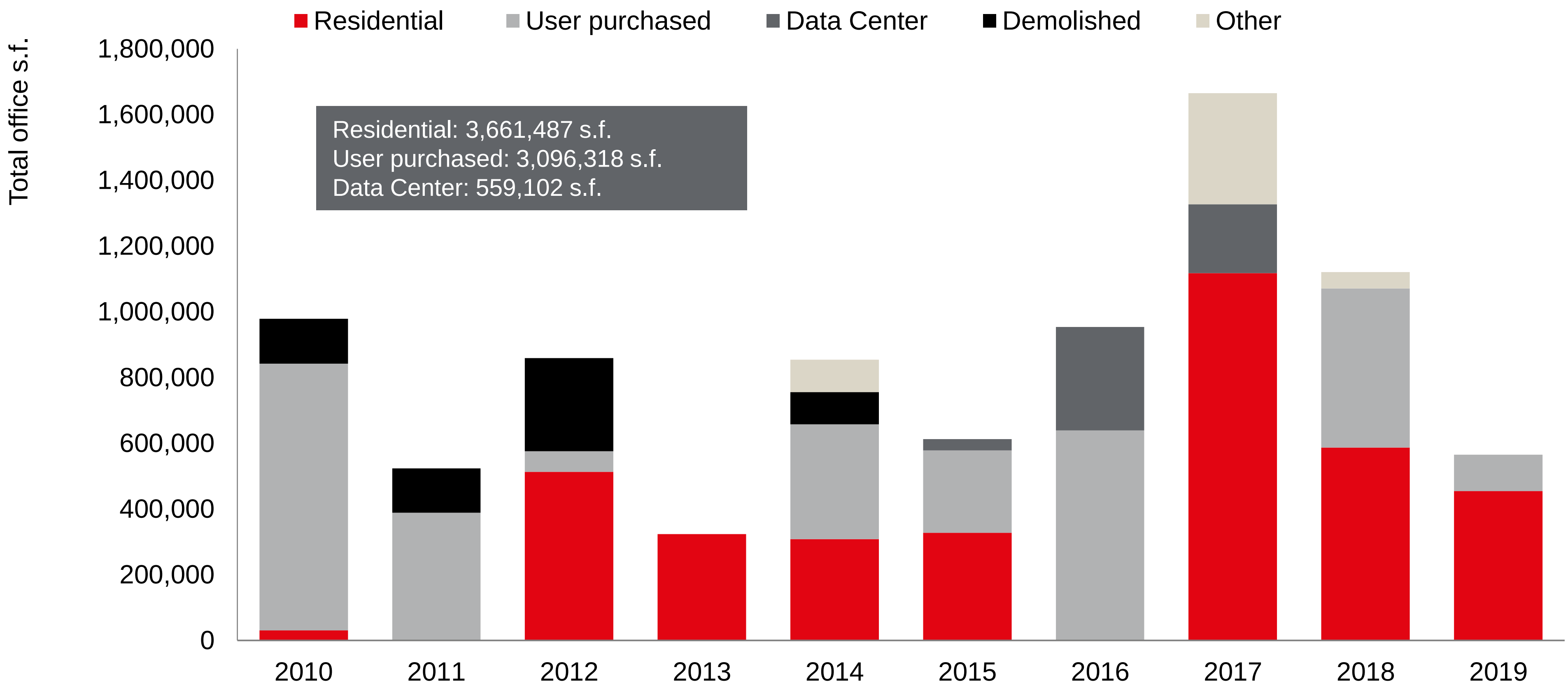
Supply has been stabilized for almost 10 years and will continue over the next several years as obsolete product is removed from inventory and is backfilled by a limited construction pipeline



Source: JLL Research

Northern Virginia supply removal

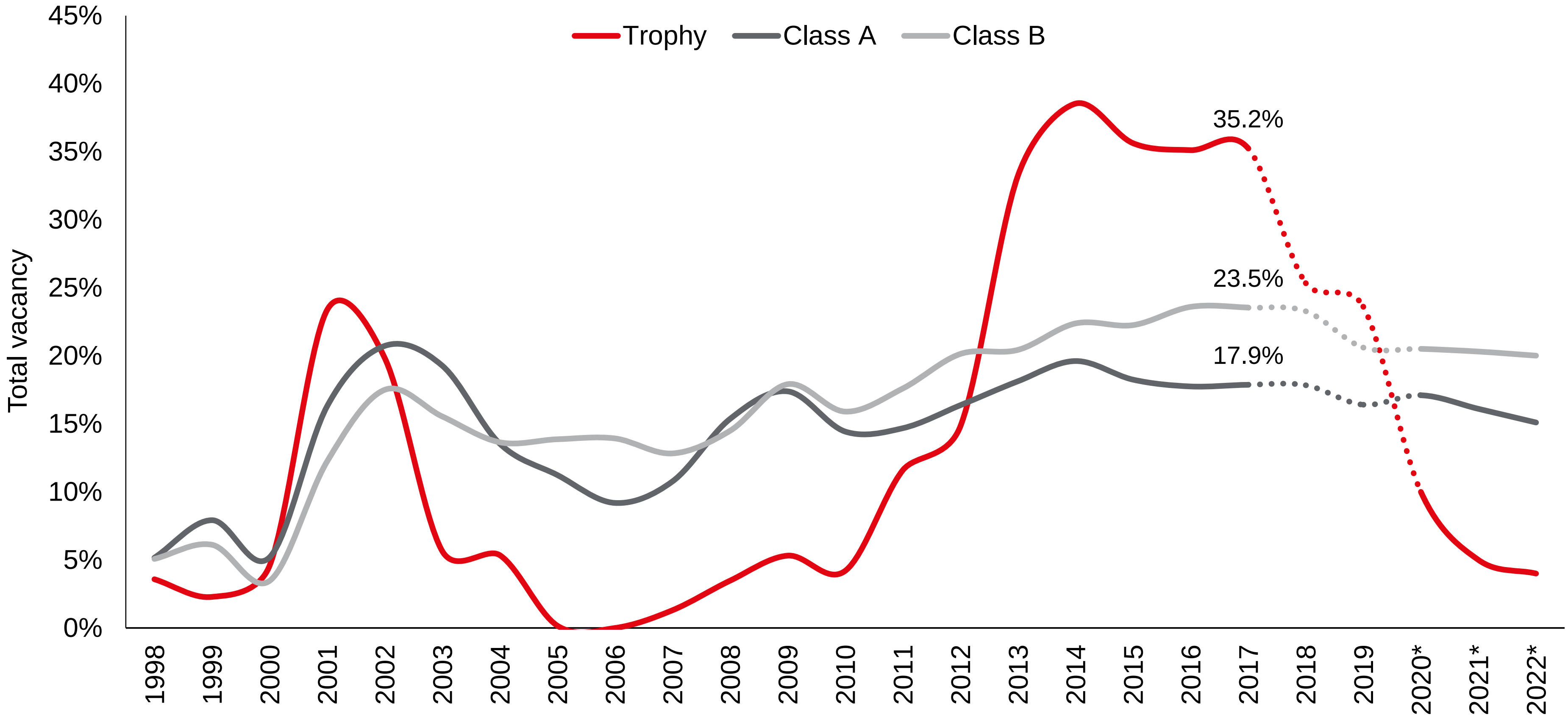
An additional 111,091 s.f. of supply was removed this quarter, including for planned conversion to residential, bringing the total supply removed since 2010 to 8.4 m.s.f. 59% of removal has occurred outside the Beltway, led by Tysons with 2.2 m.s.f.



Source: JLL Research

Northern Virginia total vacancy

A lack of new, quality product is expected to push Trophy vacancy down to sub-5% over the next three years; in the Class A segment, a projected overall uptick in demand, plus the removal of product, is poised to drive up occupancy levels, though not as sharp as in Trophy

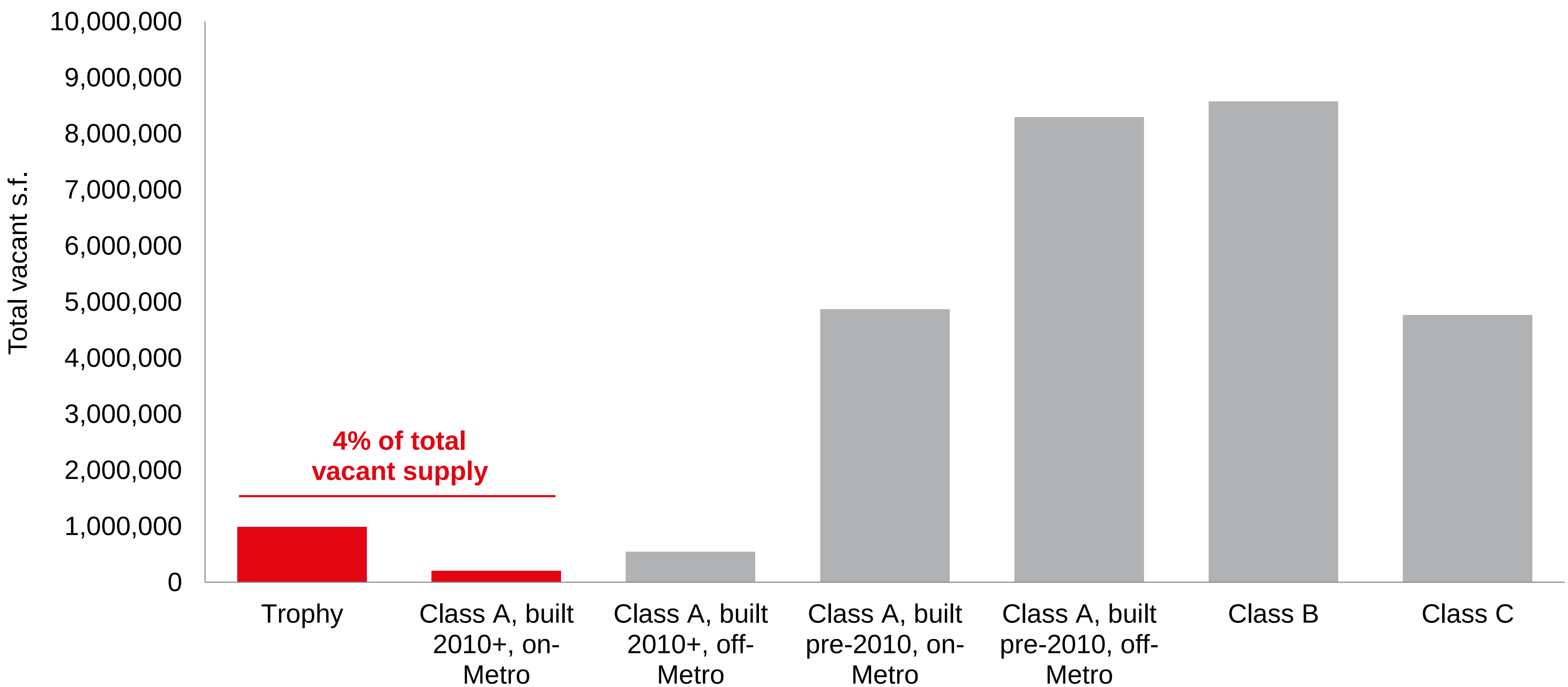


**Projected*

Source: JLL Research

Northern Virginia total vacant by class

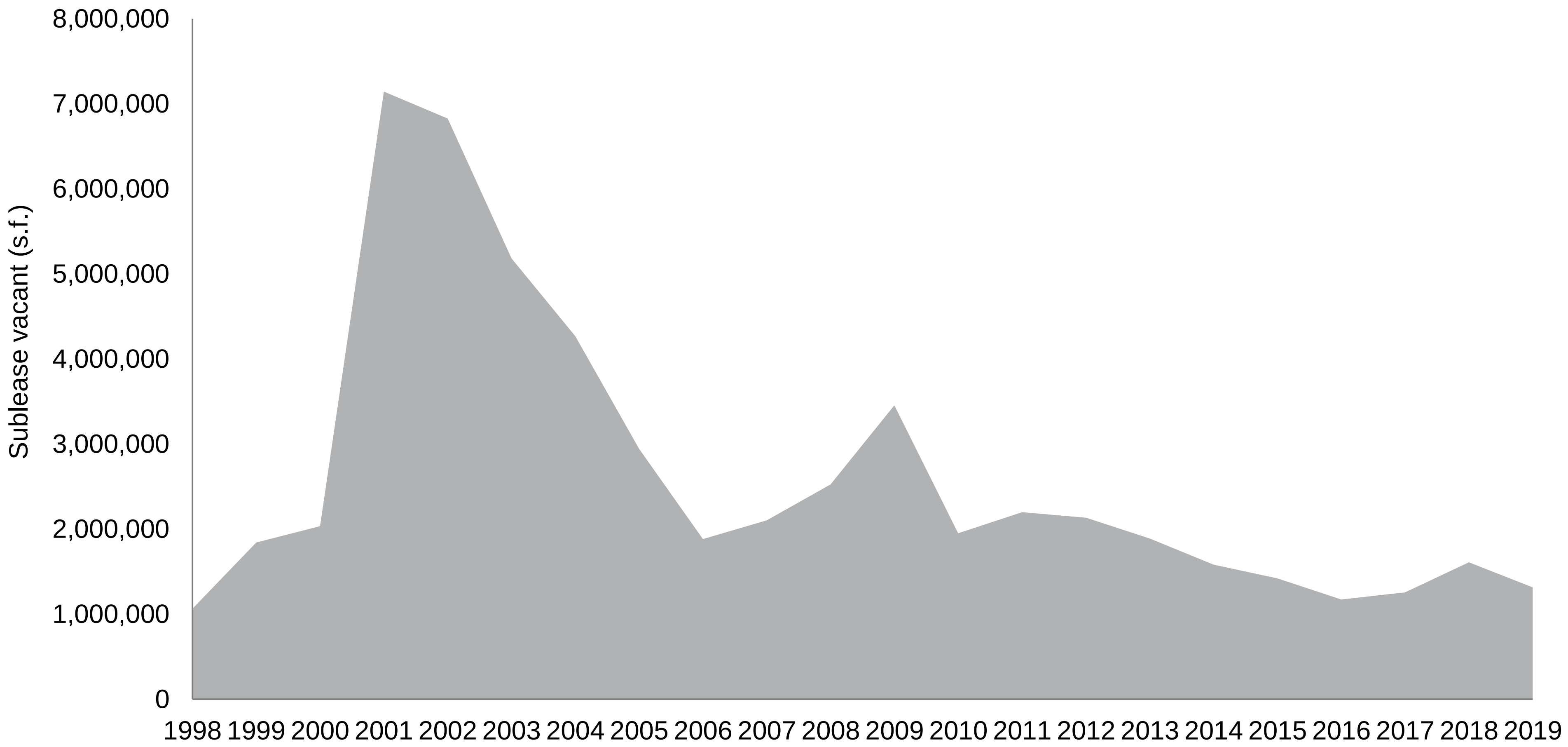
79% of the market's 29.5 m.s.f. of vacant supply is comprised of product that is either Class A off-Metro, Class B or Class C; over the next 12-24 months, the share of vacant supply represented by Trophy and new, on-Metro Class A space will decline from 4% today to sub-2%



Source: JLL Research

Northern Virginia sublease space

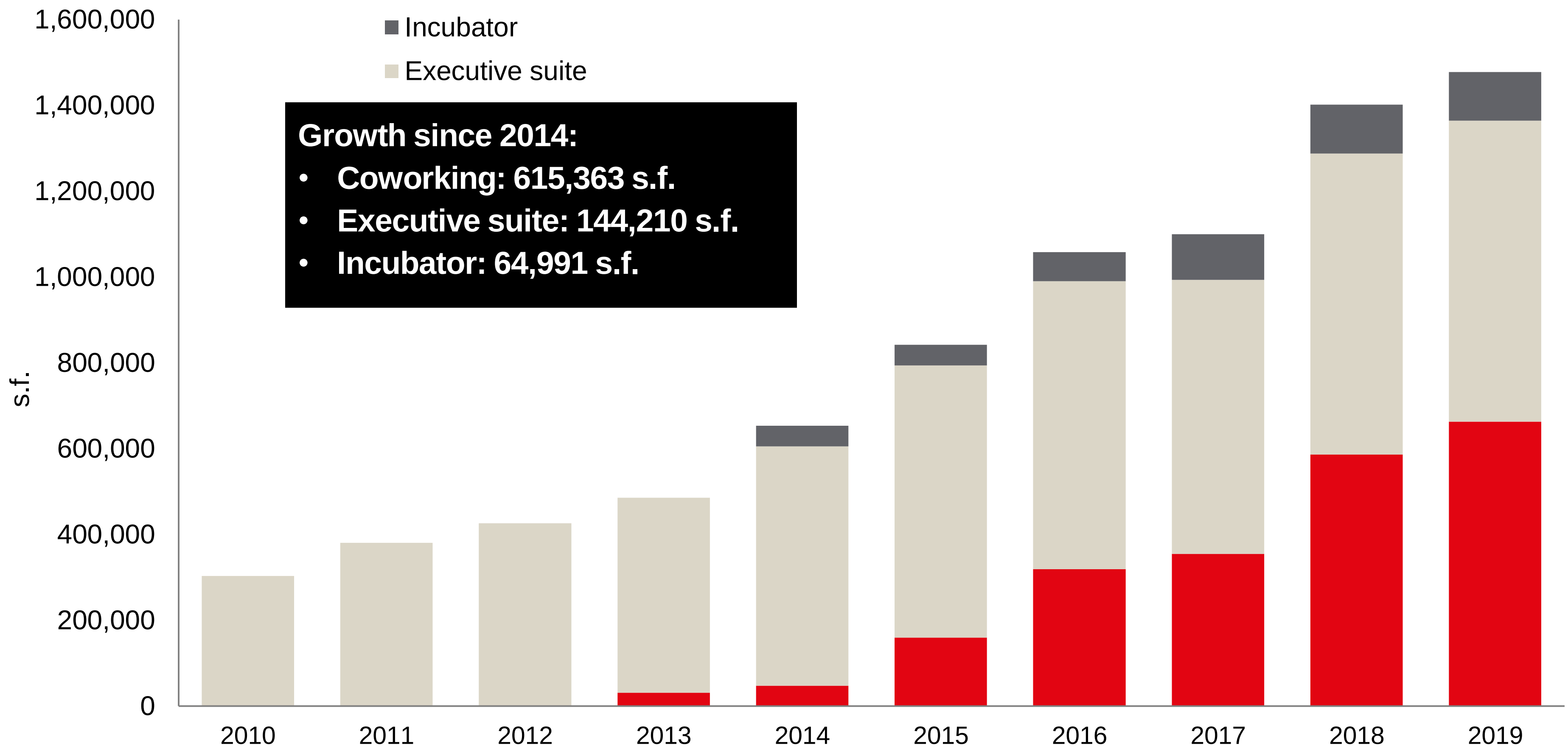
Sublet vacancy is trending 50% below the 20-year average of 2.6 m.s.f.



Source: JLL Research

Northern Virginia flexible space

In 2010, executive suites comprised 100% of flexible space in Northern Virginia. Since then, coworking has exploded, comprising 45% of flexible space as of Q1 2019. Spaces (at the Boro) and ALX Community (at 201 N Union) both signed leases for new locations this quarter

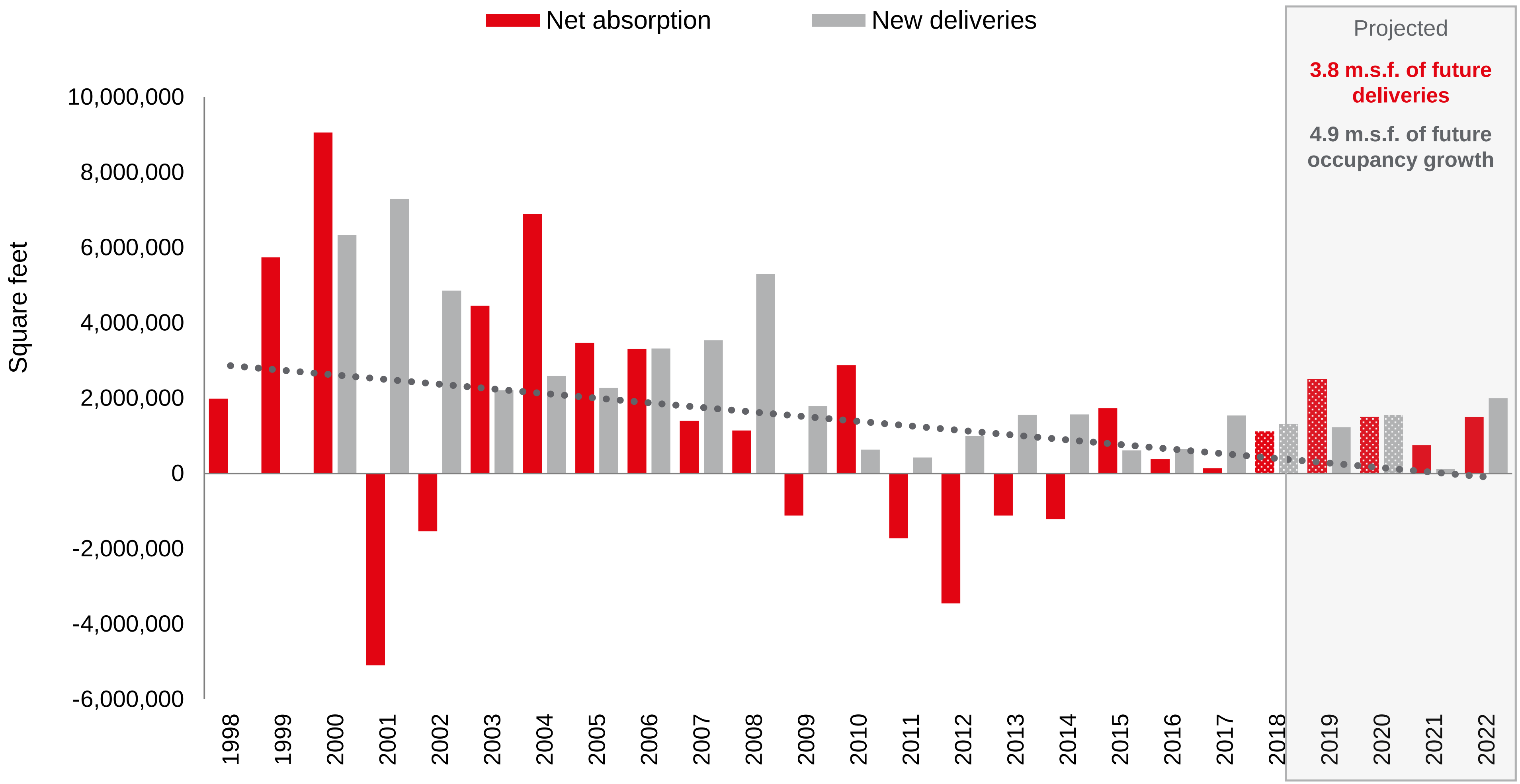


Source: JLL Research

Demand

Northern Virginia deliveries vs. net absorption

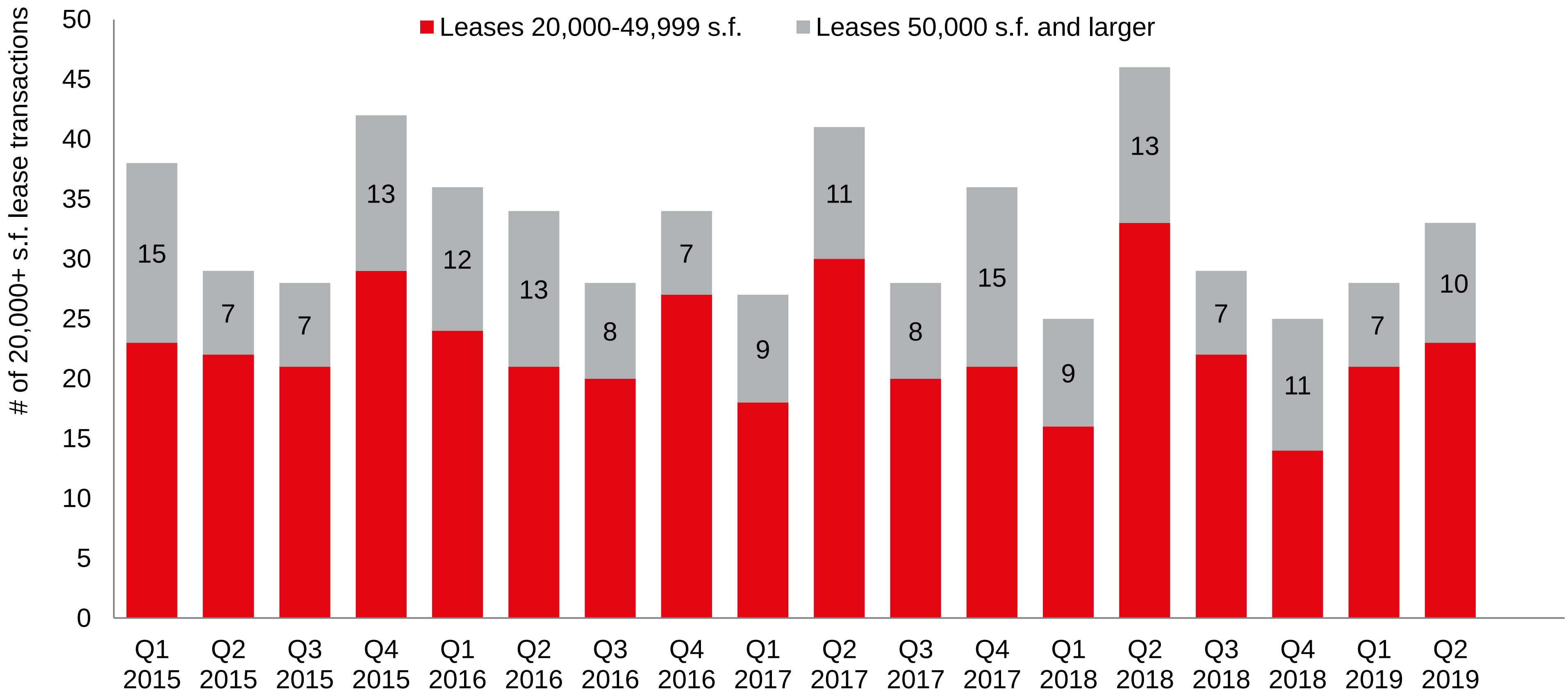
Northern Virginia experienced 1,238,044 s.f. of net absorption in Q2, the most in a quarter since 2006, with a sustained period of occupancy growth projected over the short-term, and new deliveries below historical norms



Source: JLL Research

Northern Virginia leasing activity by count

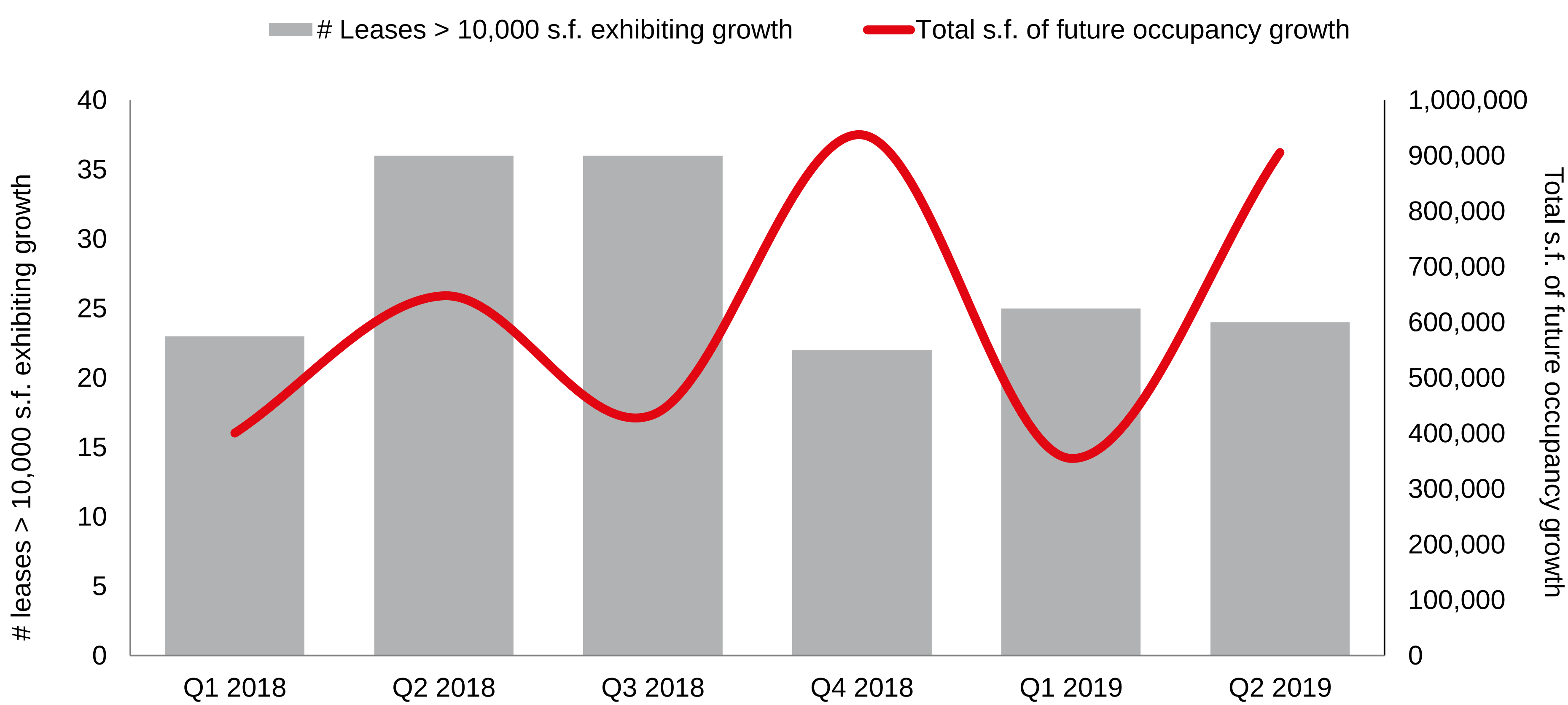
Leasing activity > 20,000 s.f. in Q2 included Freddie Mac's full building expansion at 1550 Westbranch and Spaces signing for a new 51,422-s.f. location at 1640 Boro Place



Source: JLL Research

Northern Virginia leasing – future growth

In Q2, 24 tenants signed leases > 10,000 s.f. that will exhibit growth, combining for 905,667 s.f. of future occupancy gains, led by Freddie Mac expanding by 152,242 s.f. in Tysons



Source: JLL Research

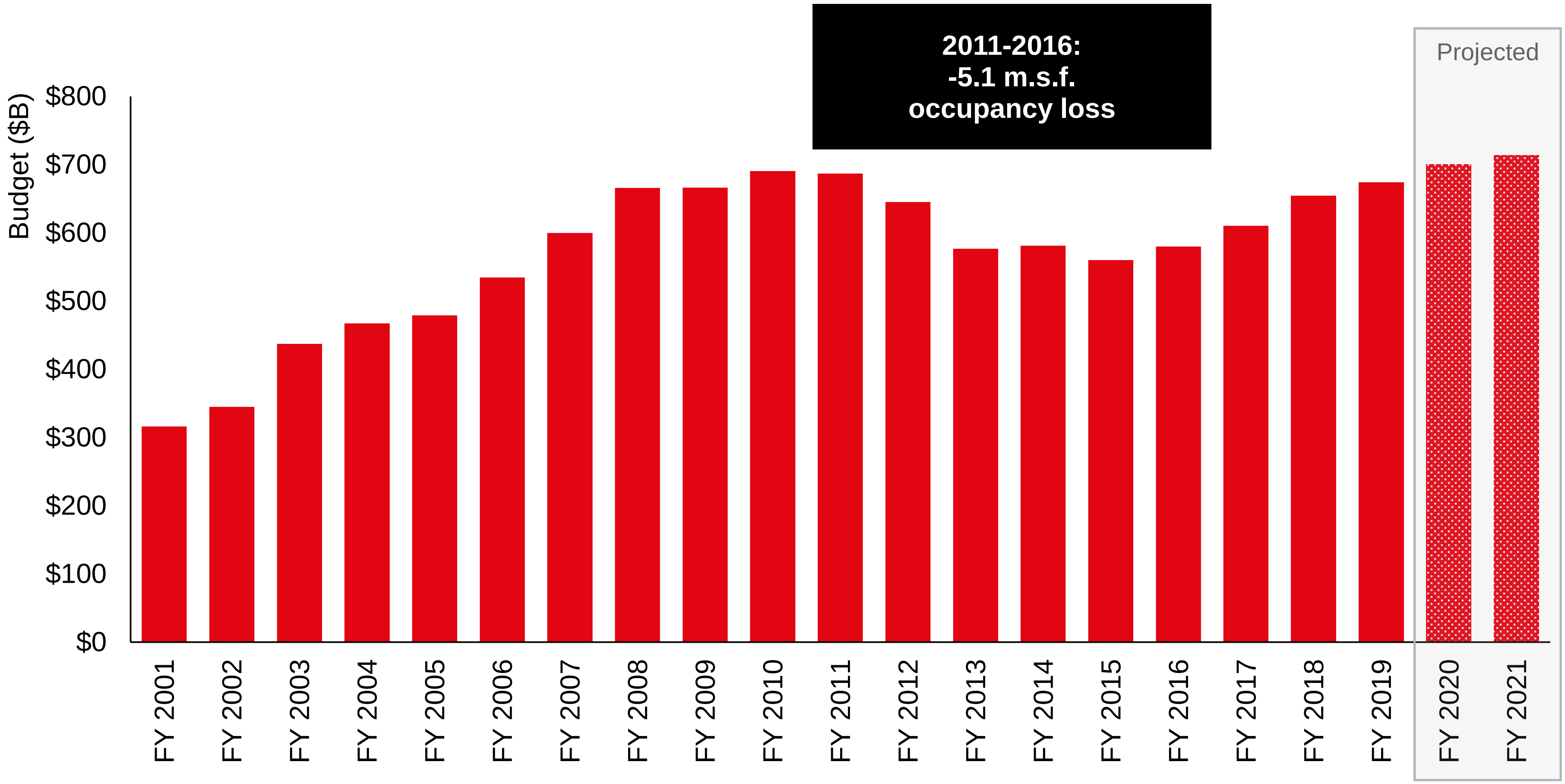
Northern Virginia leasing activity by submarket

The Silver Line corridor, from the RB Corridor through Tysons to the Toll Road, continues to capture a disproportionate share of leasing activity, driven by tenants favoring Metro access

Source: JLL Research

Defense budget

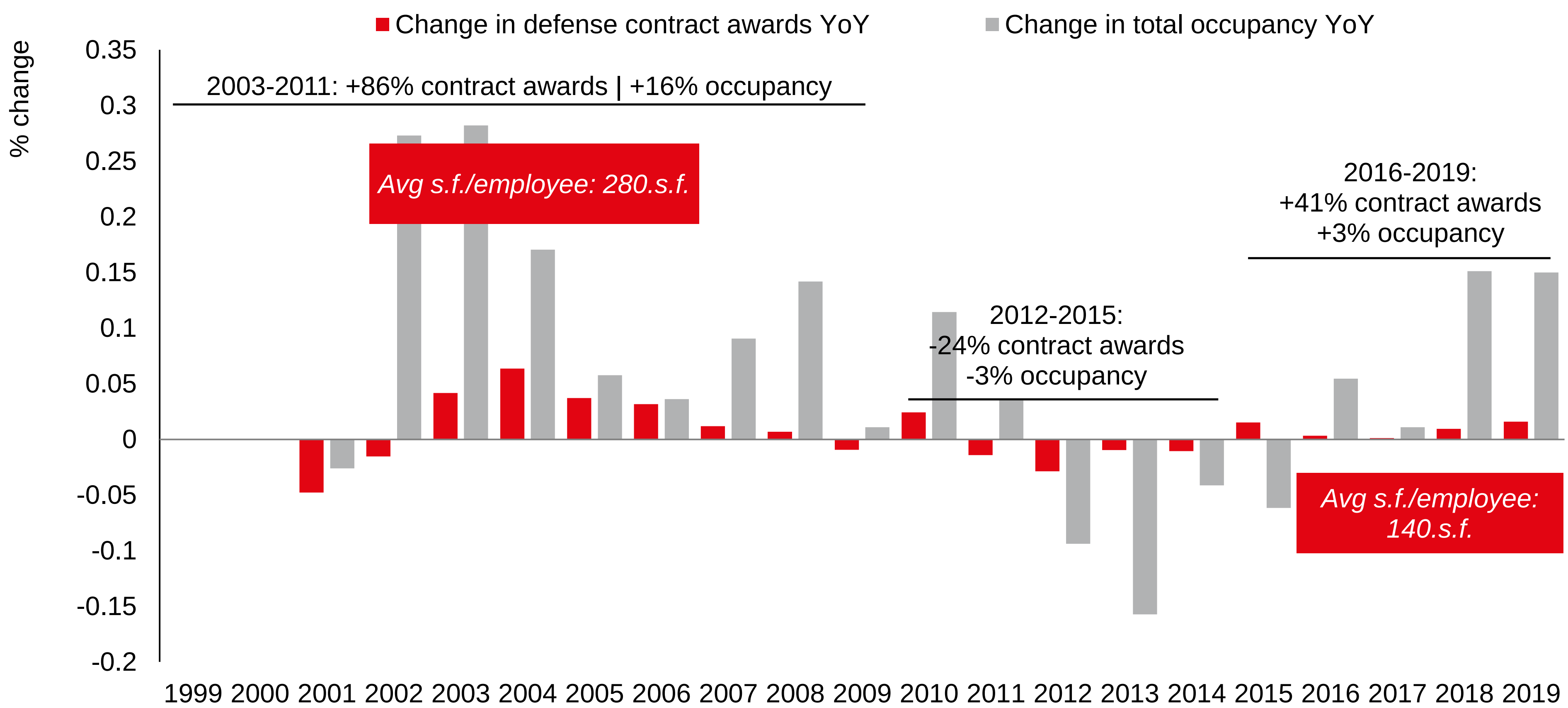
The defense budget declined by $111 billion from 2011 to 2016, driving significant occupancy losses. However, the budget is surging again, up 16% since 2017, and was signed at the start of the year, giving contractors more fiscal clarity than at any point in the past decade



Source: JLL Research

Northern Virginia defense contractor growth

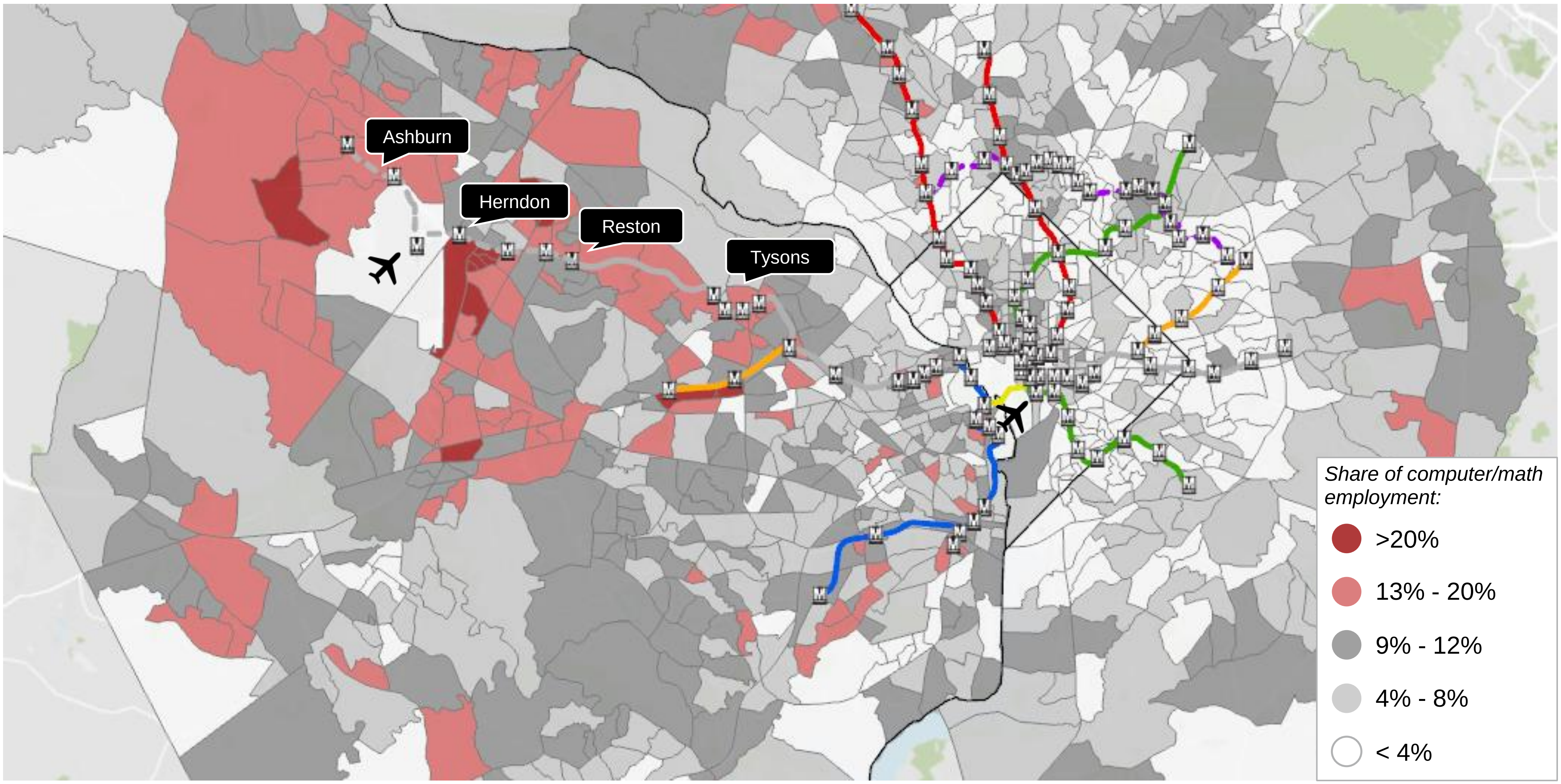
Historically, when defense spending surges, absorption surges, and when it declines, occupancy declines; while this cycle is still early, it is already different. One reason - the major contractors all rightsized during the downturn and remain focused on efficiency in their space utilization



Source: JLL Research

Metro DC tech talent by residency

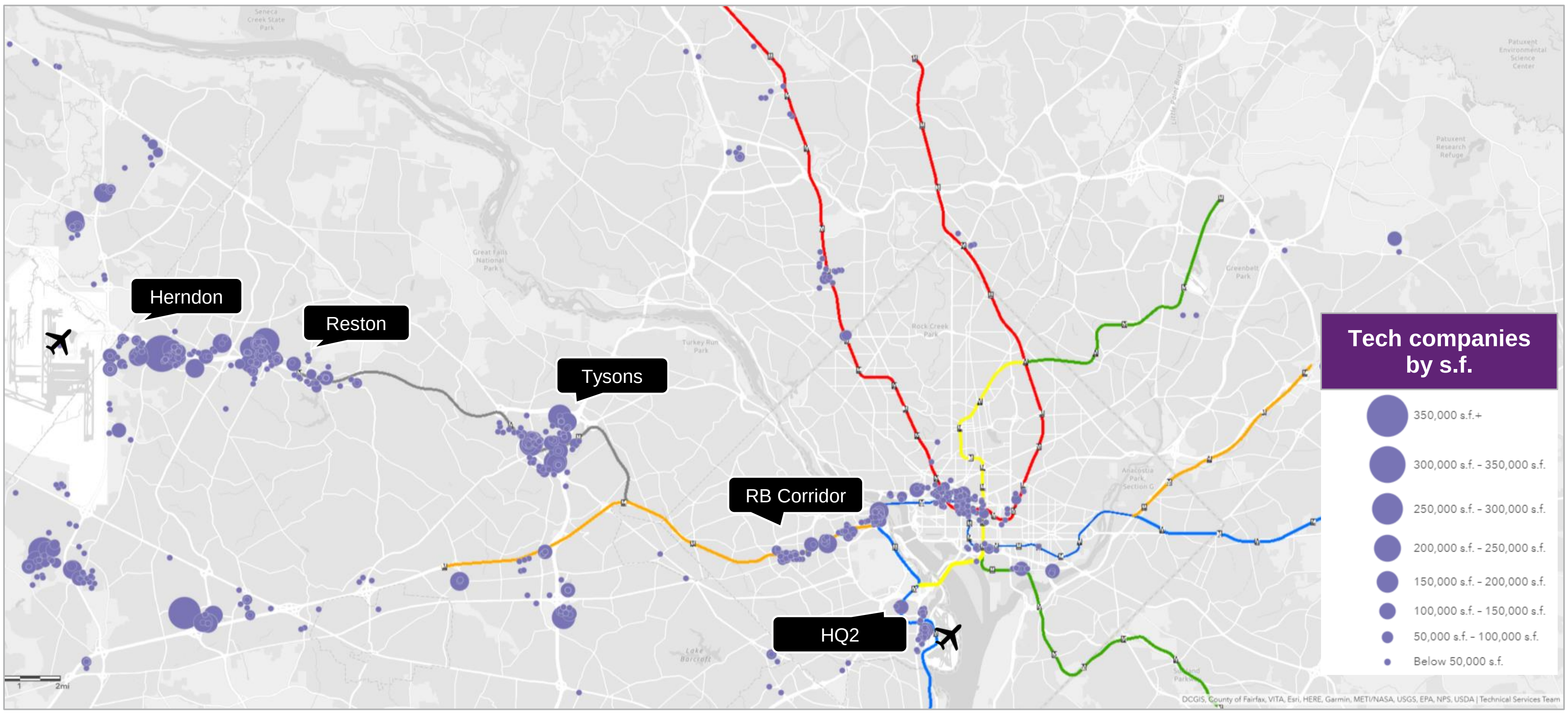
Driven by the origins of tech in this market, neighborhoods west of Tysons offer the most access to talent, primarily along the Toll Road and into Loudoun County



Source: JLL Research

Metro DC tech employers by s.f.

Northern Virginia dominates the region's tech office market and will continue to grow its leadership position, with a tech corridor solidifying from Data Center-centric Loudoun County, through the Toll Road and Tysons, and into RB Corridor and Crystal City

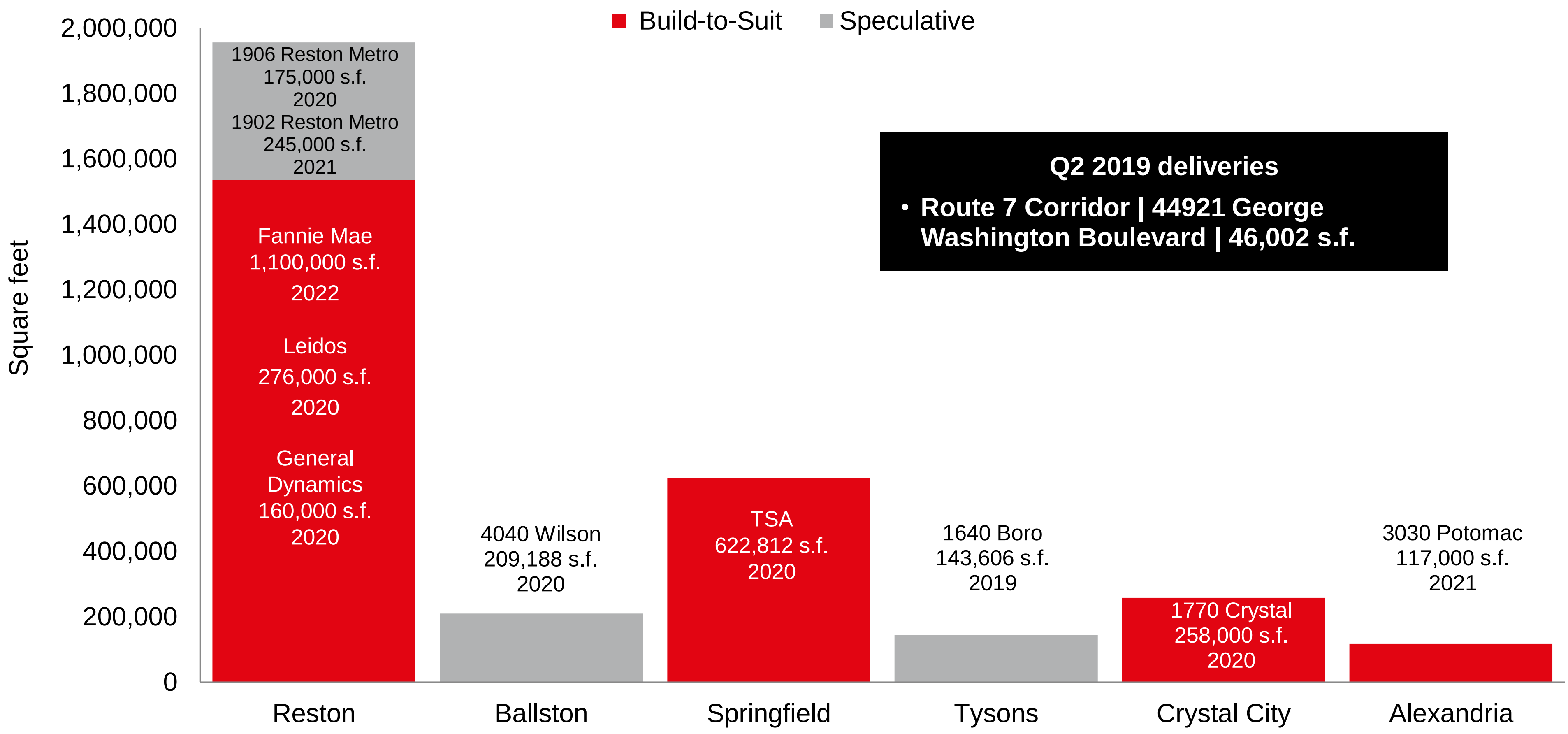


Source: JLL Research

Development

Northern Virginia current construction pipeline

44921 George Washington Boulevard delivered this quarter and 1902 Reston Metro broke ground, making the current construction pipeline comprised of 77% build-to-suit and 23% speculative



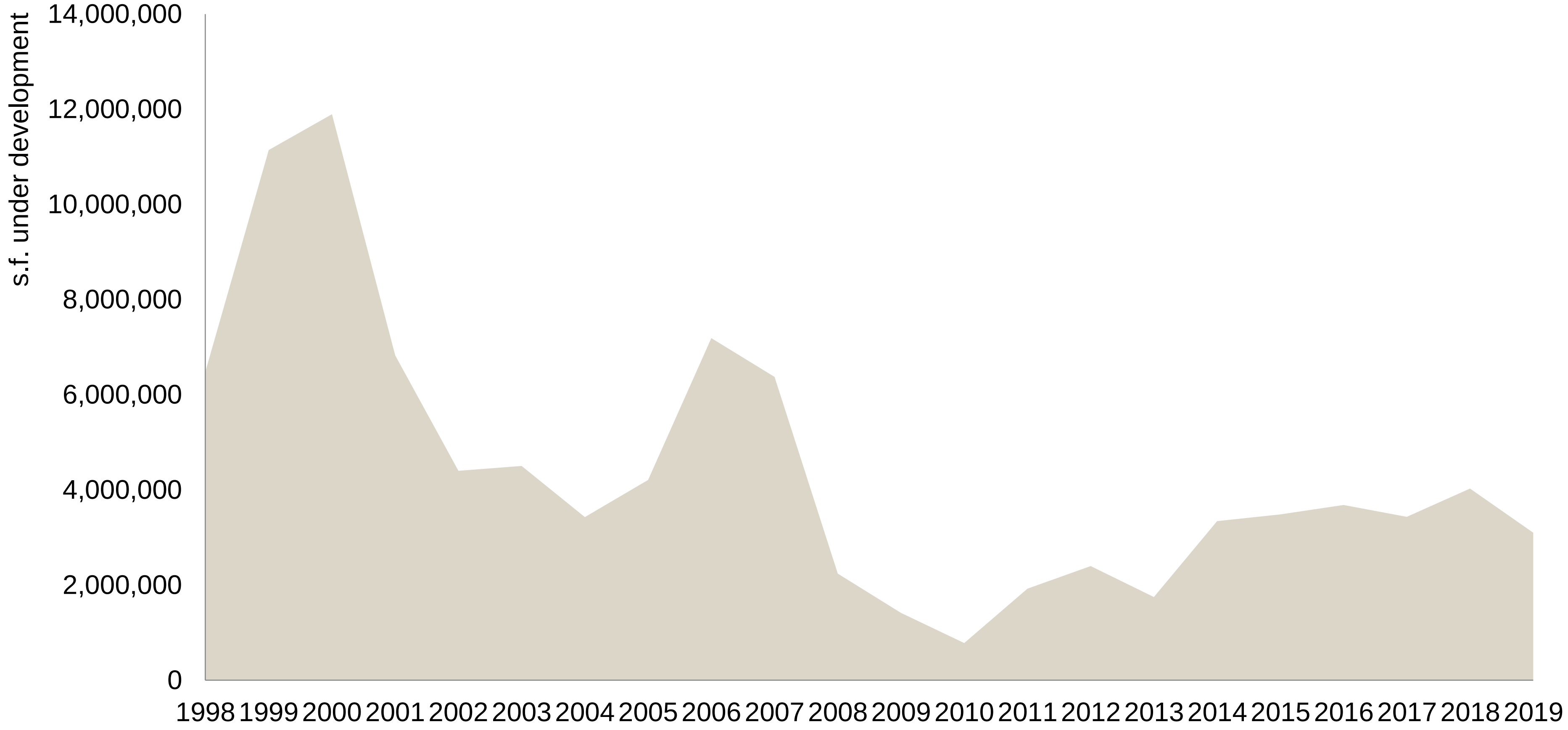
Q2 2019 deliveries

- **Route 7 Corridor | 44921 George Washington Boulevard | 46,002 s.f.**

Source: JLL Research

Northern Virginia historical construction pipeline

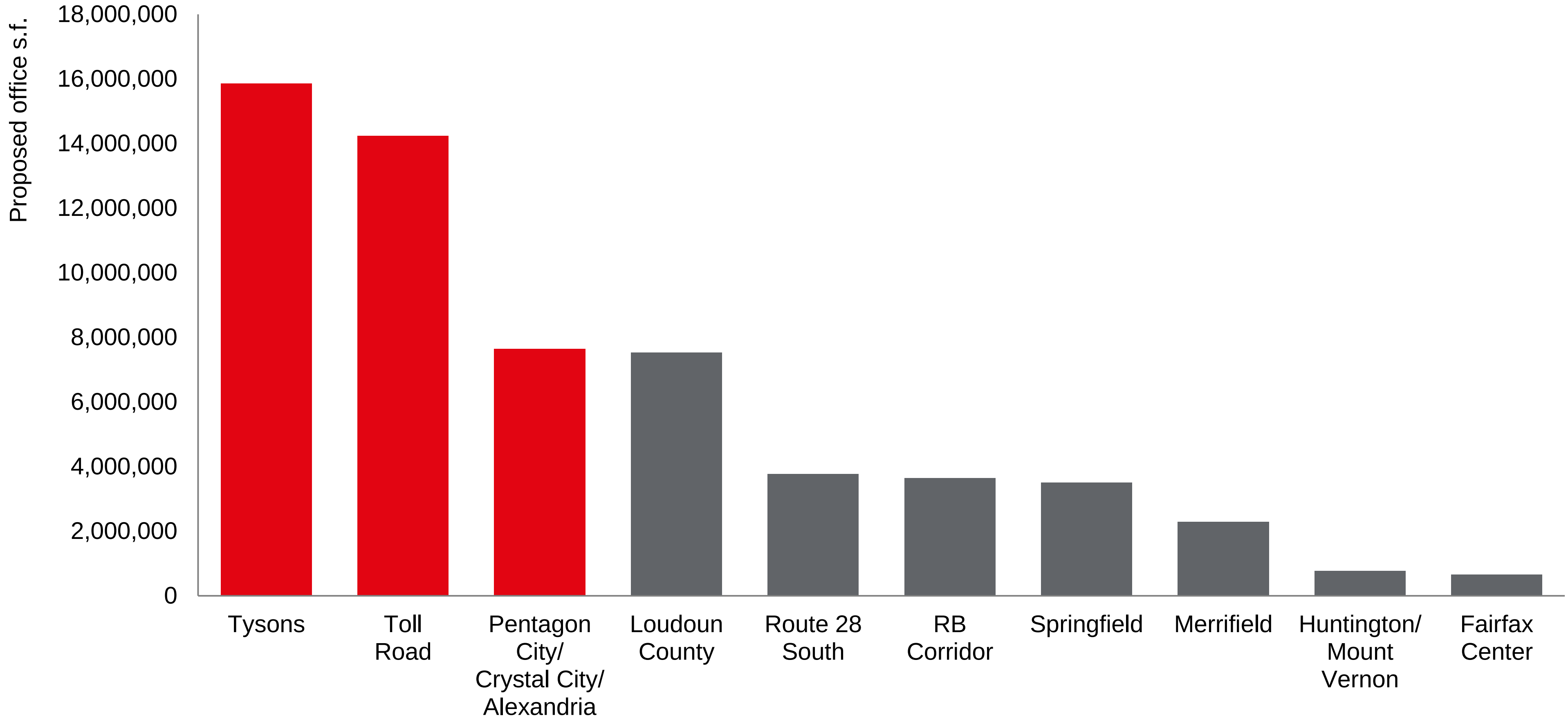
3.1 m.s.f. is under development, including six build-to-suit projects across Reston, Springfield, Alexandria and Crystal City, plus four key speculative projects in Reston, Ballston and Tysons



Source: JLL Research

Northern Virginia proposed development pipeline

Tysons and the Toll Road offer the most scale for future ground-up development, holding 50% of the proposed office pipeline; meanwhile, inside the Beltway, greater Crystal City will form as a development hub for obvious reasons, while the RB Corridor's future pipeline is minimal

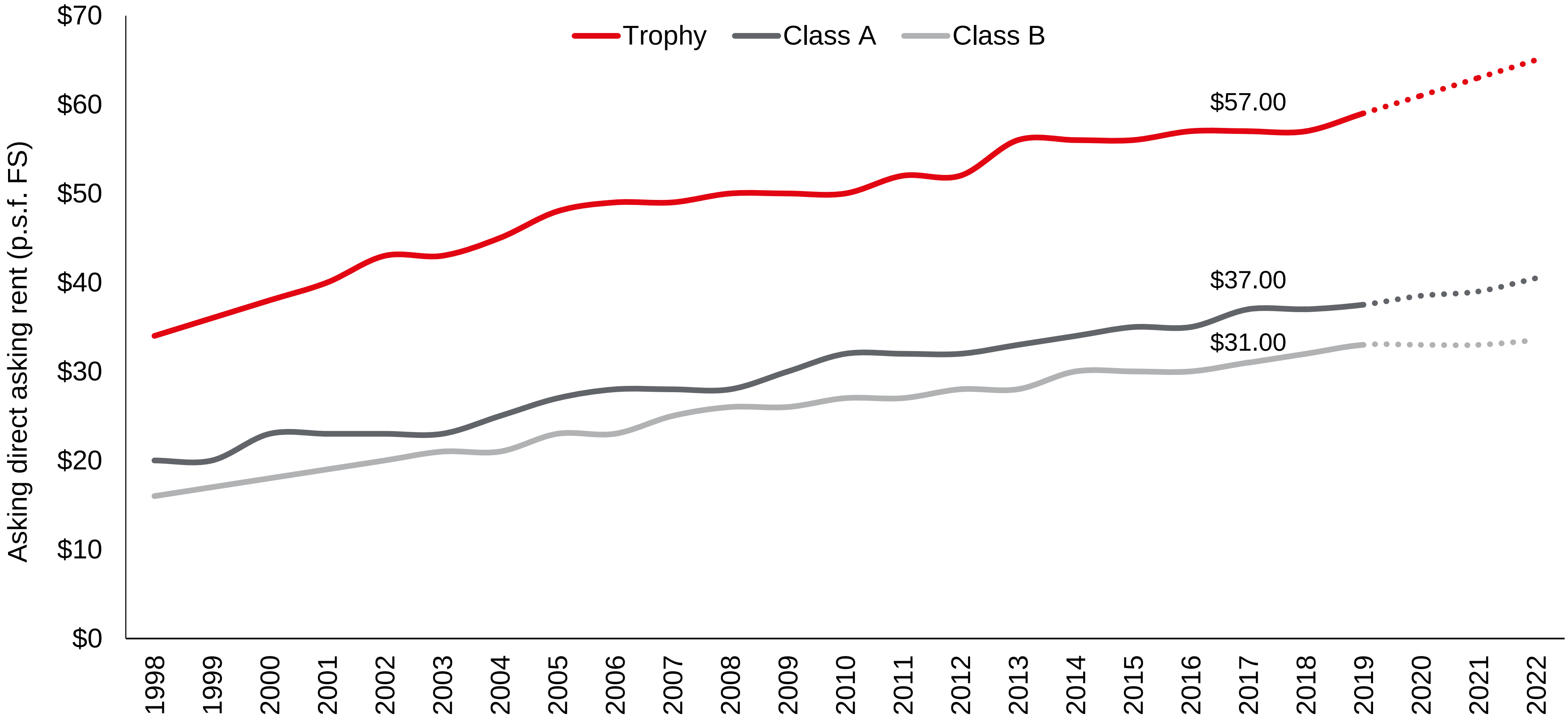


Source: JLL Research

Pricing

Northern Virginia direct asking rent

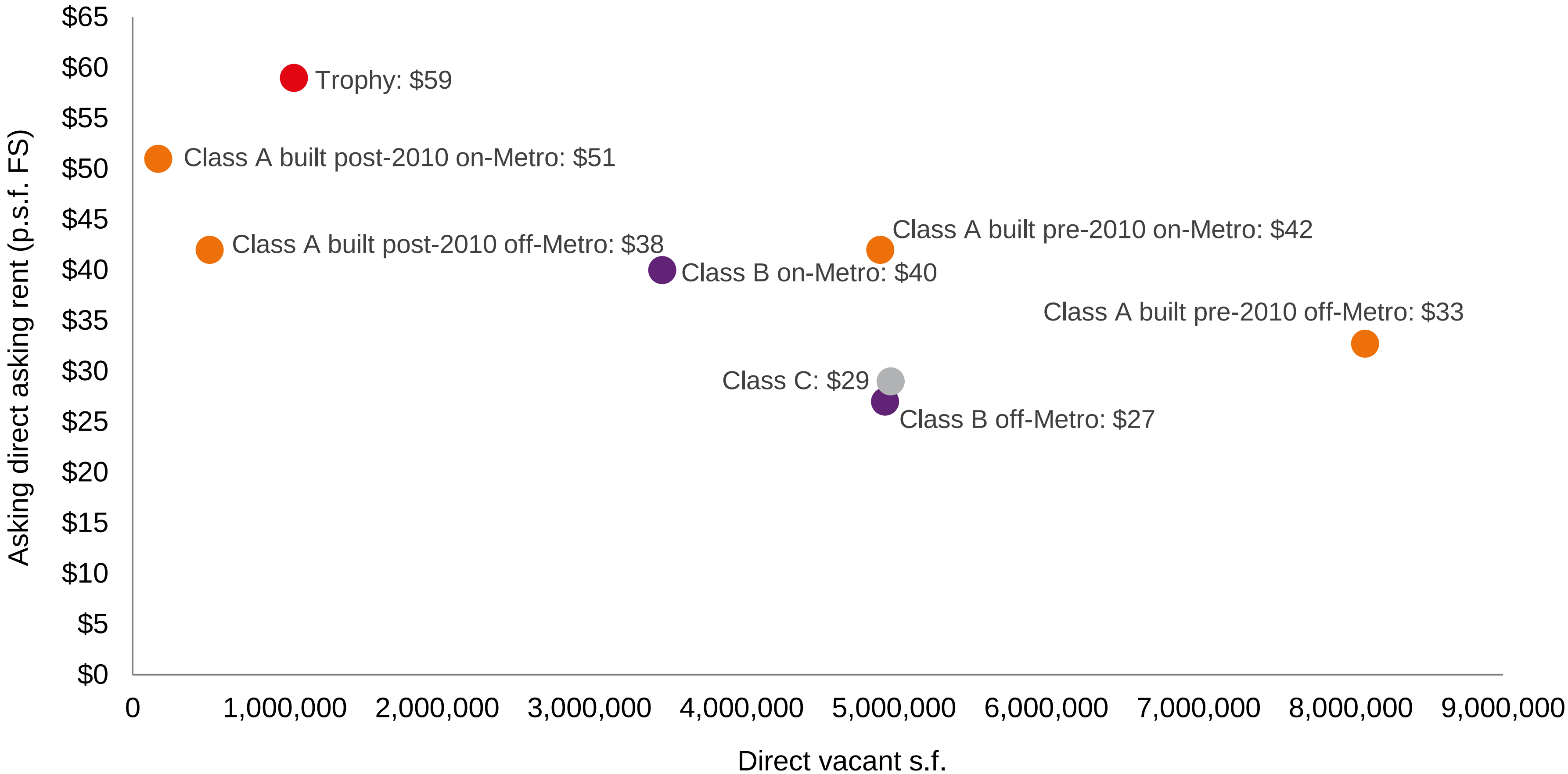
Trophy rents maintain a 57% premium over Class A pricing overall, driven by a lack of new, quality product; by 2022, a projected uptick in demand and limited new deliveries will drive average Trophy pricing to $65 p.s.f. FS, a 60% premium over Class A overall



Source: JLL Research

Northern Virginia direct rents by class

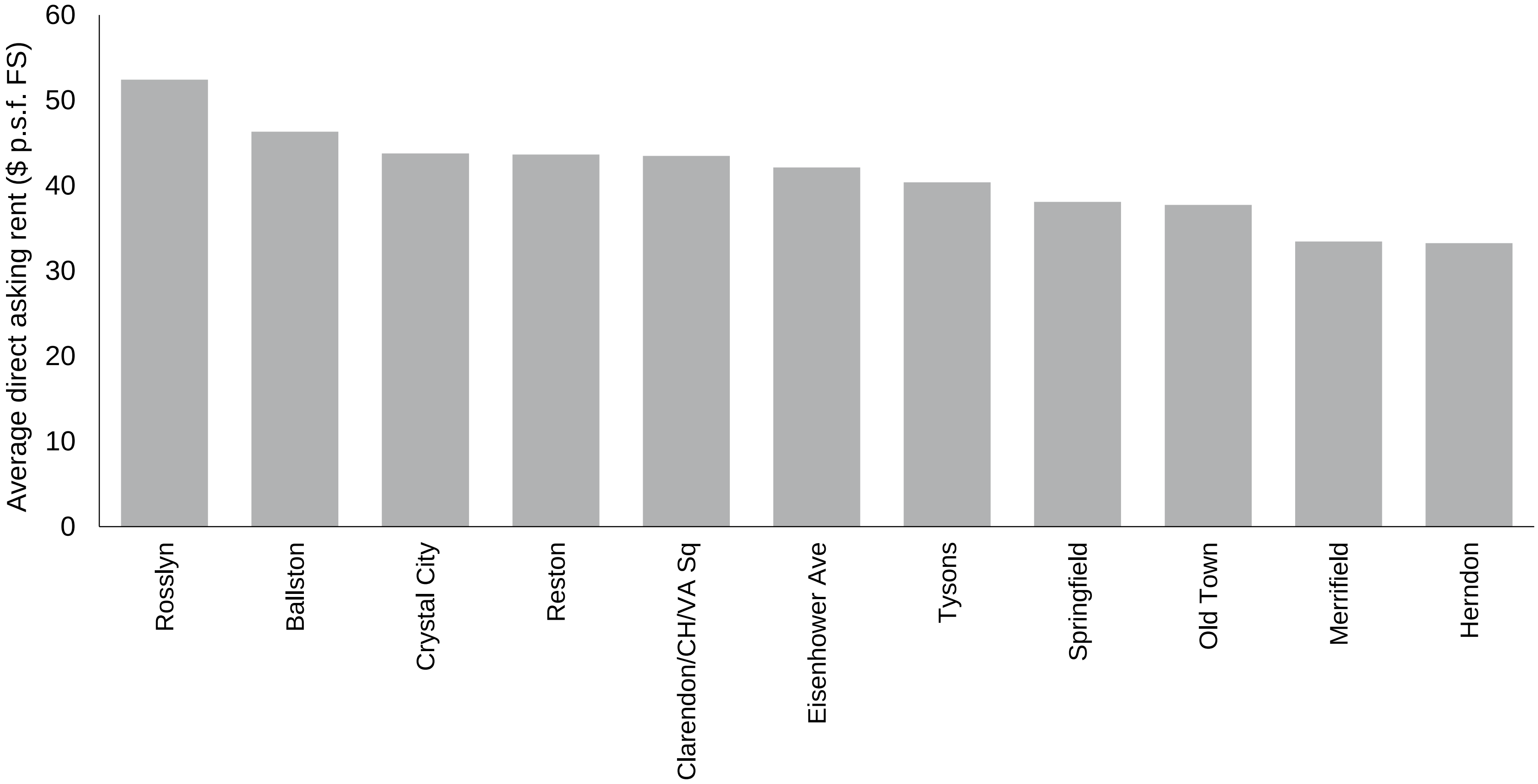
Metro access continues to drive pricing, with newer Class A product on-Metro commanding a 35% premium over newer Class A product off-Metro; Class B/C saw an overall jump in asking rents this quarter driven by increases in Crystal City



Source: JLL Research

Northern Virginia Class A direct asking rents

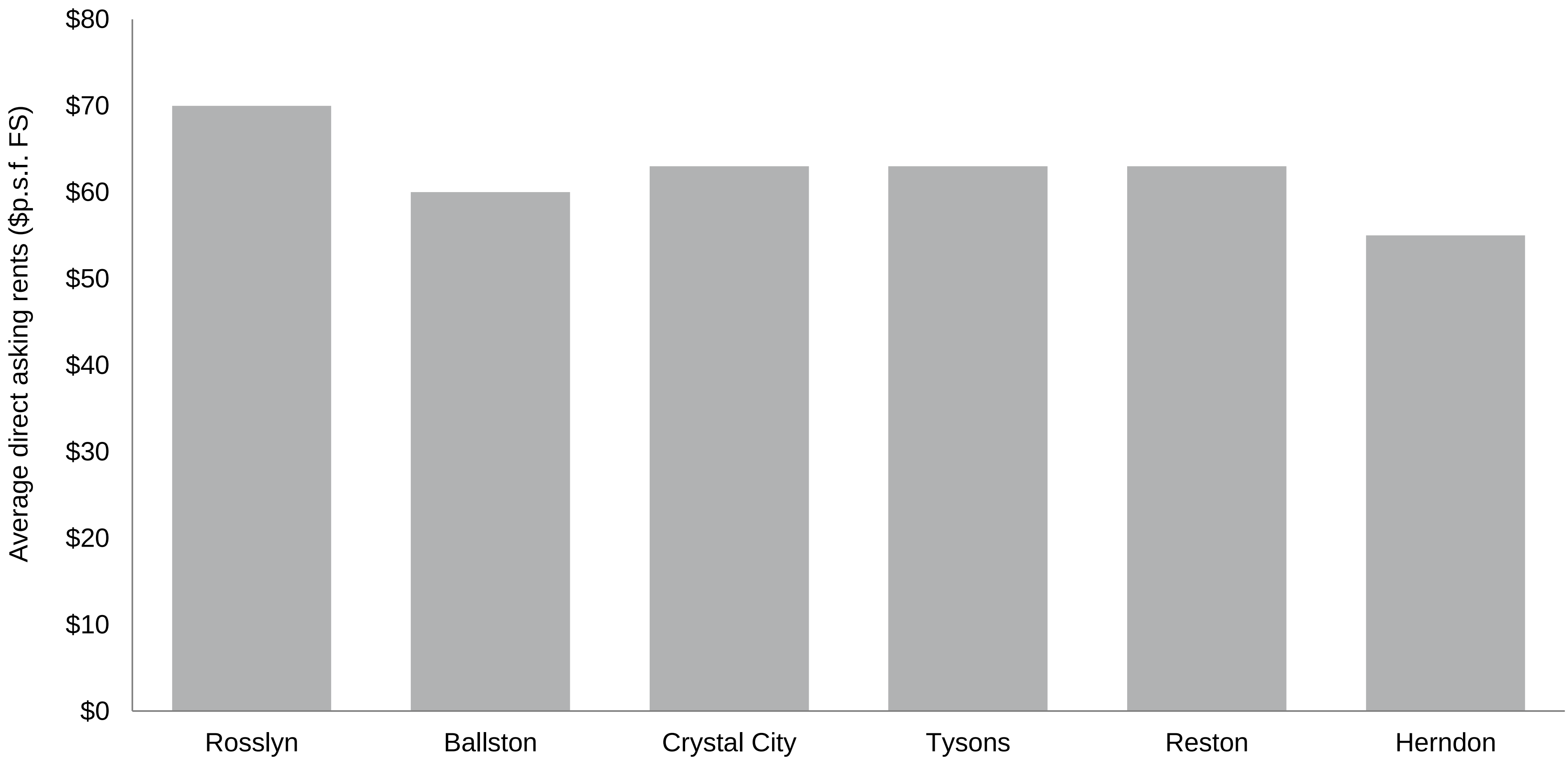
Average Class A rents vary widely across the demand corridor: to the east, Rosslyn commands a 29% premium over Tysons, while to the west, Herndon presents an 22% discount to Tysons



Source: JLL Research

Northern Virginia proposed development pricing

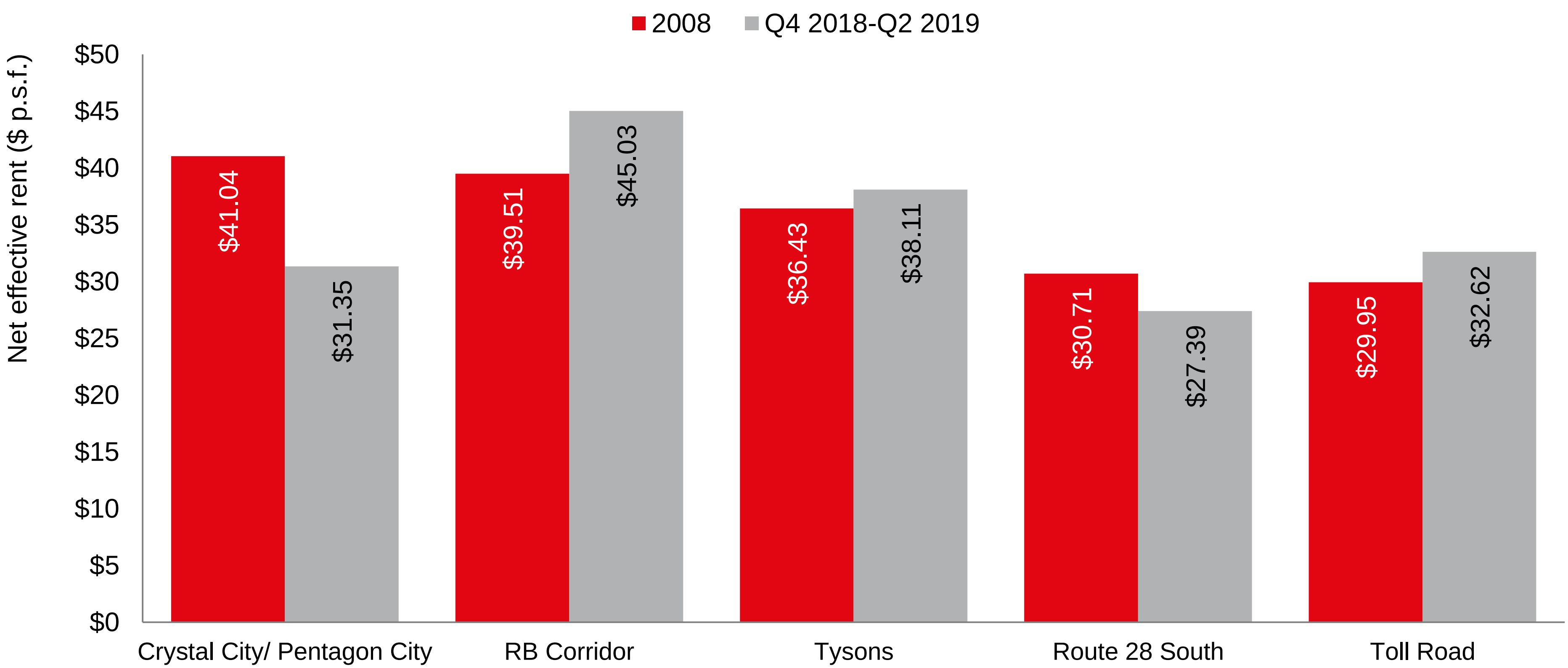
Unlike the wide discrepancy in Class A pricing across the market, rents for new Trophy construction in the short-term will remain more in-line across submarkets, with options expected across the demand corridor



Source: JLL Research

Northern Virginia net effective rents

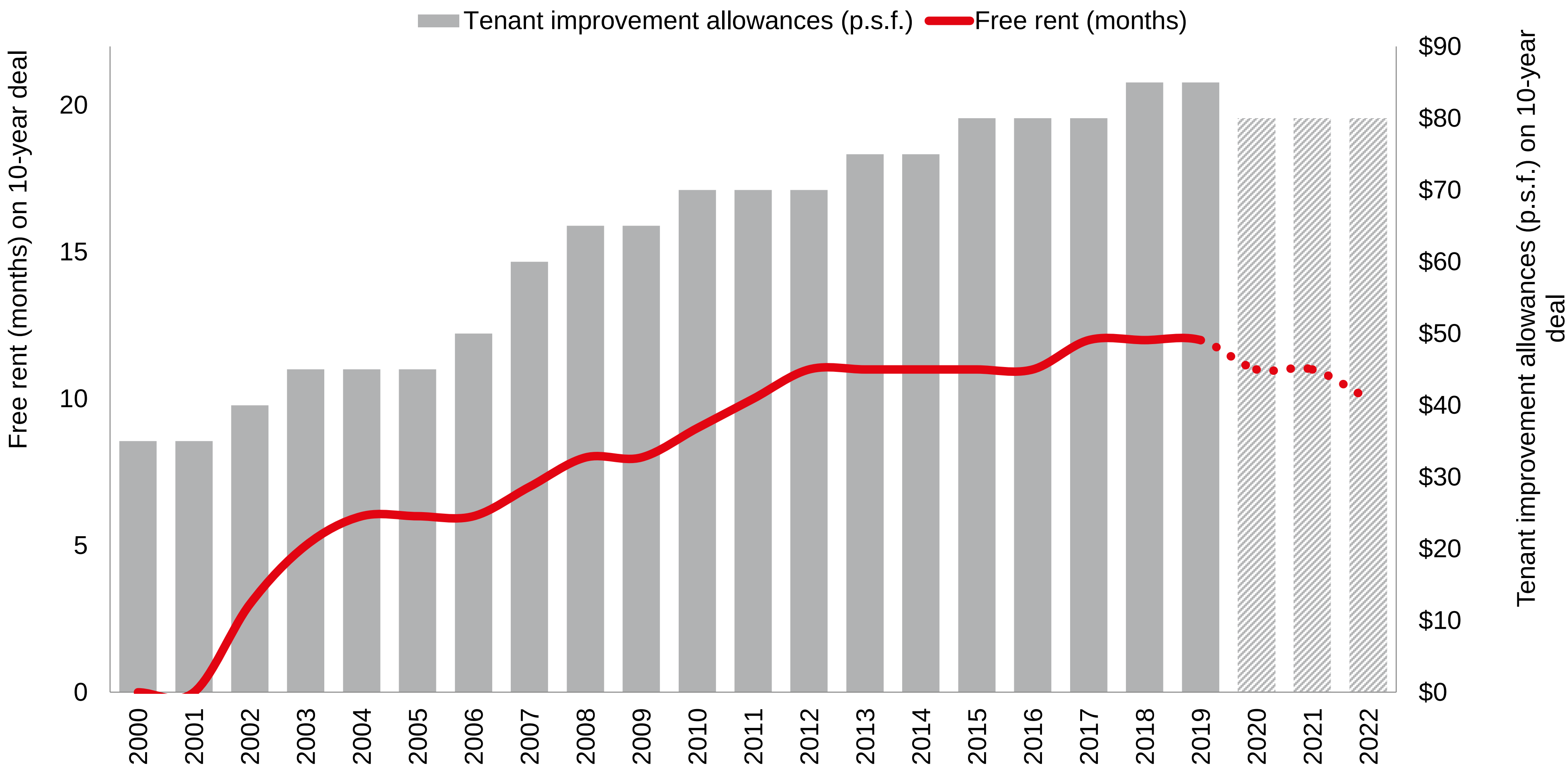
Submarkets continue to see minimal to no net effective rent growth versus a decade ago, driven by concessions remaining at peak levels, particularly as tenants are cross-shopping more than ever; however, we believe this trend is nearly over, particularly in Crystal City, RB Corridor and the Toll Road, due to market demand and tightening



Source: JLL Research

Northern Virginia concessions

Concessions continue to reach all-time highs, but a projected uptick in demand driven by tech expansion should bring a slight decrease in concessions for quality assets



Source: JLL Research