**Tenant migration shifts in Northern Virginia’s favor**

**Northern Virginia capturing inbound tenant demand from DC**
As market conditions have tightened in the District of Columbia and the value proposition of suburban locations has become increasingly enticing, many tenants have expanded the geographic scope of their search areas. Multiple nonprofits and associations have looked across the river into the Rosslyn-Ballston Corridor and Crystal City. This quarter, Chemonics International moved from the CBD into 53,929 square feet at 251 18th Street S and GW Medical Faculty Associates moved from the CBD into 48,900 square feet at 3811 N Fairfax Drive. The opening of the Silver Line has also enticed tenants to tour sites further west, with some groups in the Rosslyn-Ballston Corridor now considering Tysons.

**Absorption flat due to large contractor downsizing**
Northern Virginia posted positive net absorption for the fourth consecutive quarter, but the growth was limited by a handful of big government contractor move-outs. Booz Allen Hamilton vacated 396,490 square feet at 13200 Woodland Park Drive in Herndon and TASC vacated 79,067 square feet at 4805 Stonecroft Boulevard in Route 28 South. However, the majority of tenants in Northern Virginia are beginning to expand, including Unicom, Washington Gas and MakeOffices this quarter. Two large relocations out of Fairfax Center also involved contractions as CSRA moved to Route 28 South and Fairfax County Public Schools moved to Merrifield.

**Incentives battle heats up**
Arlington County awarded $1 million in incentives (matched by the Commonwealth of Virginia) to retain Opower. It is the first time the county has given money to attract or retain a tenant. Arlington County’s Manager also proposed setting aside $1.5 million to attract tech companies between 5,000 and 20,000 square feet. There are two bills working their way through the Virginia legislature that would raise incentives to between $25 and $32 million. The fight to attract companies across the region (as well as local jurisdictions within each state) will continue to escalate with each large tenant that hits the market.
Quarter in review
Both Crystal City and the Rosslyn-Ballston Corridor posted positive net absorption for the fourth time in the last five quarters, a sign that the market is beginning to tighten after vacancy soared above its normal single-digit rates. Private sector tenants in the RB Corridor began to expand their footprints after years of rightsizing. Nonprofits continued to move to Crystal City as a transit-accessible but cheaper alternative to DC.

Arlington County is diversifying away from its traditional government agency and contractor tenant base. Four years after the Defense Intelligence Agency vacated 3100 Clarendon Boulevard, coworking space company MakeOffices moved into 39,837 square feet of the building. George Washington Medical Faculty Associates moved from DC into 48,900 square feet at 3811 N Fairfax Drive.

Opower signed a 63,000-square-foot lease to relocate to 2311 Wilson Boulevard. Arlington County gave Opower a $1.0-million grant, which was matched by the Commonwealth of Virginia. It is the first time the county has given a grant to attract or retain a company. 2311 Wilson Boulevard is now 35.8 percent preleased and will begin construction in the second quarter. Chemonics International signed the largest lease of the quarter in Crystal City. The nonprofit is relocating from 1717 H Street, NW in DC into 53,929 square feet at 251 18th Street S.

Outlook
The Metro-accessibility, excellent workforce demographics and lively retail amenities will keep demand high in the office submarkets of Arlington County. Although vacancy remains high, buildings are leasing at up to 31.2 percent higher rents than federal agencies paid prior to BRAC move-outs.

An increase in office, residential and retail projects across Arlington County should help the office market recover by increasing amenities. Shooshan and Brandywine switched the plans for 4040 Wilson Boulevard to include residential as well as office and retail. 2221 S Clark Street is being converted from an office into a 272-unit WeLive apartment building that will include 25,000 square feet of office space.
**Crystal City recovery continues**

*Quarter in review*

Crystal City posted positive net absorption for the fifth consecutive quarter. After vacancy spiked following over 2.0 million square feet of BRAC relocations and government contractor downsizings, total vacancy has fallen 6.0 percent since the end of 2014. The recent growth is principally due to nonprofits and associations that have been moving into the market due to its Metro accessibility and status as an affordable inside-the-Beltway option. However, owners continue to offer record tenant improvement packages and free rent on new leases as a way to fill vacancy.

Chemonics International signed the largest lease of the quarter in Crystal City. The nonprofit is relocating from 1717 H Street, NW in Washington, DC into 53,929 square feet at 251 18th Street S. Two other tenants signed leases over 30,000 square feet in Crystal City during the first quarter. The General Services Administration renewed for 38,035 square feet at 201 S 12th Street while NATO Sea Sparrow signed a 30,700 square foot lease to relocate to 2511 Jefferson Davis Highway.

WeWork opened its first Northern Virginia location in Crystal City this quarter as part of its WeLive concept at the recently redeveloped 2221 S Clark Street. The coworking space occupies 25,000 square feet across two floors, while the rest of the building will be micro-unit apartments.

There was 107,931 square feet of positive net absorption this quarter caused by large move-ins by Dominion Dental, BAM Technologies and STS International. However, next quarter the Environmental Protection Agency will vacate 145,766 square feet at 2733 Crystal Drive and consolidate into 2777 Crystal Drive.

*Outlook*

Crystal City will continue to provide an affordable and Metro-accessible location for government agencies, contractors and nonprofits. However, there are a handful of move-outs that could drive vacancy up as the Drug Enforcement Agency and Transportation Security Administration are in the market.
**Quarter in review**

The Rosslyn-Ballston Corridor posted positive net absorption for the fourth time in the last five quarters. The RB Corridor continues to shift from having a large government presence to one with a diverse tenant base. Associations and nonprofits from DC are increasingly touring Rosslyn while tenants in Tysons and further west are looking in Ballston.

While government agencies continued to move out of the submarket, new tenants were backfilling the space. Four years after the Defense Intelligence Agency vacated 3100 Clarendon Boulevard, coworking provider MakeOffices moved into 39,837 square feet at the building. George Washington Medical Faculty Associates moved from DC into 48,900 square feet at 3811 N Fairfax Drive. While the private sector continued to grow, federal agencies continued to move out. The Coast Guard finished its 89,000-square-foot relocation out of 4200 Wilson Boulevard to its consolidated campus at St. Elizabeth’s. There were also small move-outs by government agencies at 2110 Washington Boulevard and 1616 N Fort Myer Drive.

Opower signed a 63,000-square-foot lease to relocate to 2311 Wilson Boulevard. Arlington County gave Opower a $1.0 million grant, which was matched by the Commonwealth of Virginia. It is the first time the county has given a grant to attract or retain a company. 2311 Wilson Boulevard is now 35.8 percent preleased and will begin construction in the second quarter.

Two other office buildings are under construction: 1201 Wilson Boulevard and 1000 N Glebe Road. The full renovation of Ballston Common Mall will revitalize the western edge of the corridor and become Ballston’s central attraction.

**Outlook**

Although vacancy remains high, buildings are leasing at up to 31.2 percent higher rents than federal agencies paid prior to BRAC move-outs. Private sector interest should remain strong due to the excellent workforce demographics, lively retail amenities and efficient transportation access the RB Corridor provides.
Positive quarter but move-outs looming

Quarter in review
Old Town and Eisenhower Avenue posted positive net absorption for the third straight quarter. However, a number of pending move-outs threaten to push vacancy back up by the end of the year.

While total vacancy in the I-395 Corridor is 42.0 percent, the rest of Alexandria is close to the lowest in Northern Virginia. The total vacancy rate is 10.6 percent in Eisenhower Avenue and 13.7 percent in Old Town. Two moves accounted for the positive net absorption this quarter. Sentel Corporation moved into 30,559 square feet at 2800 Eisenhower Avenue and Bright Horizons Family Solutions moved into 14,567 square feet at 1925 Ballenger Avenue.

Leasing remained slow for the second consecutive quarter as only three tenants signed leases above 10,000 square feet and none of the leases were above 20,000 square feet.

While Alexandria has given incentives to attract government tenants such as the National Science Foundation, which will move from Arlington County, private sector tenants from Alexandria are increasing their searches to include Crystal City and the Rosslyn-Ballston Corridor. Grant Thornton is reportedly close to a deal to move from 82,452 square feet in 333 John Carlyle Street to Rosslyn. The U.S. Patent and Trademark Office is also scheduled to move out of 33,000 square feet at 2000 Duke Street in the second quarter.

Outlook
The 700,000-square-foot National Science Foundation headquarters at 2415 Eisenhower Avenue is the only building currently under construction in Alexandria. Although the NSF headquarters may produce modest contractor tail, that activity will probably not materialize until 2017 when the agency is scheduled to take occupancy.

While Potomac Yard is not currently served by Metro, there is an infill station planned to open in 2020 that will be served by the Yellow and Blue lines.
Tenant migration across submarkets increases

Quarter in review
Fairfax County posted negative net absorption for the first time in the last four quarters as a result of a handful of large government contractor move-outs. While the normally strong Toll Road saw the largest of the move-outs, Tysons and Route 28 South had significant net absorption gains.

Migration from one submarket to another inside Fairfax County increased in the first quarter. CSRA moved from 290,000 square feet in Fairfax Center to 15036 Conference Center Drive in Route 28 South. Fairfax County Public Schools vacated 106,000 square feet in Fairfax Center to move to 8270 Willow Oaks Corporate Drive in Merrifield. CSC signed a lease to relocate its headquarters from Fairview Park to 1775 Tysons Boulevard. General Dynamics announced that it will move its headquarters from Fairview Park to a build-to-suit in Reston.

Booz Allen Hamilton consolidated into other existing locations as it vacated 396,490 square feet at 13200 Woodland Park Road in Herndon. Strayer Education moved out of 87,414 square feet at 2303 Dulles Station Boulevard and placed the space on the sublet market. Unicom moved into 458,926 square feet at 15000 and 15010 Conference Center Drive after purchasing the buildings last year.

90.0 percent of the office space under construction in Fairfax County is located within ¼ mile of a Silver Line Metro station. This includes 1900 Reston Metro Plaza, which will be the first building to deliver in the Toll Road since 2009. 1775 Tysons Boulevard pushed back its delivery date to the second quarter.

Outlook
Although vacancy is near the highest point in over 10 years, much of this space is non-competitive with the market due to changing demographic preferences and aging building inventory. While some non-Metro submarkets will still be able to compete based upon price or proximity to government agencies, others will struggle to lease unless tenant demand dramatically increases. Aside from properties near secured government campuses, the majority of leasing activity over the next few years is expected to remain focused in Metro-served buildings.

For more information, contact: Robert Sapunor | +1 703 485 8754 | Robert.Sapunor@am.jll.com

©2016 Jones Lang LaSalle IP, Inc. All rights reserved. For more information, contact: Robert Sapunor | +1 703 485 8754 | Robert.Sapunor@am.jll.com
Tysons transformation attracts tenants

Quarter in review
Tysons posted its most positive net absorption in a quarter since 2013 as tenants expanded and migrated from other parts of Northern Virginia. The transformation of Tysons continued following the 2014 opening of the Silver Line. There are three office buildings and over 1,500 residential units under construction.

CSC signed the largest lease of the quarter in Tysons by taking 61,686 square feet at 1775 Tysons Boulevard. The government contractor is shifting its headquarters from Fairview Park to the Metro-adjacent building that is under construction. The building is now 38.7 percent preleased and will deliver in April.

The positive net absorption was led by Washington Gas, which moved from Herndon into 51,435 square feet at 8614 Westwood Center Drive.

While rents are meeting or exceeding $50 per square foot for Trophy buildings that are Metro accessible, second-generation and off-Metro buildings lease at a significant discount due to weak tenant demand. More locationally obsolete buildings are expected to be taken off the market to be redeveloped into other uses in the coming years. Buildings that have been substantially renovated have seen significant rental rate growth. 7900 Westpark saw its rents increase by over 50.0 percent after completing a $35.0-million renovation.

Outlook
Demand in Northern Virginia continues to be strongest in the submarkets along the Silver Line. M.C. Dean is rumored to be close to an 85,000-square-foot deal to relocate from Loudoun County to the Boro while Alarm.com is rumored to be expanding by 30,000 square feet at Tysons Metro Center.

Retail amenities are already improving as high-end restaurants open in new office, residential and hotel buildings. Whole Foods and Wegmans are set to open in the next few years. While the full transformation of Tysons will take decades, the large volume of office and residential buildings under construction shows the strong demand for new mixed-use and Metro-accessible developments.
Demand remains strong due to Metro expansion

Quarter in review
Demand remained strong in the Toll Road as tenants from Fairfax Center and Merrifield plan to relocate into the submarket. General Dynamics announced that it will move its headquarters from Fairview Park to a 190,000-square-foot building located at 11011 Sunset Hills Road. The Toll Road is one of the only submarkets in Northern Virginia to have a lower vacancy rate now than before the recession.

Despite solid tenant demand, a handful of large move-outs pushed vacancy up 2.3 percentage points this quarter. Booz Allen Hamilton consolidated into other locations as it vacated 396,490 square feet at 13200 Woodland Park Road in Herndon. Strayer Education moved out of 87,414 square feet at 2303 Dulles Station Boulevard and placed the space on the sublet market. There were some bright spots in the market as MakeOfficess opened a new 20,703-square-foot coworking space at 12110 Sunset Hills Road and Digital Globe moved into 28,437 square feet at 2325 Dulles Corner Boulevard.

Virginia Spine Institute signed the largest lease of the quarter by taking 32,779 square feet at 11800 Sunrise Valley Drive. While there were no other leases above 20,000 square feet during the first quarter, numerous large deals are currently in the market. ScienceLogic is close to expanding by 30,000 square feet at 10700 Parkridge Boulevard. Boeing is in the market for over 150,000 square feet as it considers vacating 12701 Fair Lakes Boulevard in Fairfax Center.

Outlook
Demand is expected to remain high in Reston-Herndon in the coming years. Shifting demographics toward transit-oriented developments have also redirected demand from tenants in car-dependent submarkets such as Route 28 South and Fairfax Center. With Phase II of the Metro scheduled to open in 2020 and an increased focus on cybersecurity, vacancy is expected to continue to decline.

1900 Reston Metro Plaza is the only office project under construction along the Toll Road. The 368,413-square-foot building is adjacent to the Wiehle Avenue Metro Station and will be the first building to deliver in the submarket since 2009.
More healthcare-related tenants moving in

Quarter in review
Merrifield posted the most positive net absorption in a quarter since 2012 as the submarket continues to diversify its tenant base. While the submarket is already an established government contracting hub, it is attracting more healthcare-related tenants due to its proximity to the Defense Health Agency and Inova.

Inova began opening its new operations on the former ExxonMobil campus this quarter. The hospital took over the 1.3-million-square-foot campus and will open a cancer center and a personalized medicine hub with George Mason University. The positive net absorption this quarter was caused by Fairfax County Public Schools. The agency moved from 3877 Fairfax Ridge Road in Fairfax Center to 8270 Willow Oaks Corporate Drive.

The largest lease of the quarter was signed by U.S. Citizenship and Immigration Services, which renewed for 67,389 square feet at 2675 Prosperity Drive. Innovation Health Holdings signed a 10,873-square-foot lease to relocate to 3190 Fairview Park Drive.

General Dynamics announced plans to vacate its headquarters at 2941 Fairview Park Drive and construct a new 190,000-square-foot building at Reston Eastgate, a site owned by Boston Properties.

Outlook
There has been increased tour activity in Merrifield, especially in the Fairview Park micromarket. While only a portion of the submarket is served by Metro, Merrifield is conveniently located at the intersection of the Capital Beltway, Route 50 and I-66. This has helped it attract tenants from outside the Beltway, including Fairfax Center and Springfield.

The diversification of the Merrifield submarket into a medical hub and its central location in Fairfax County should cause tenant activity to remain strong for the foreseeable future. Even with a general shift toward transit-oriented development, Merrifield will benefit by being a highly accessible vehicle-dependent submarket.
Quarter in review
This quarter Route 28 South posted the most positive net absorption of any submarket in Metro DC and the most in Route 28 South since 2010. Unicom moved into the remaining space at 15000 and 15010 Conference Center Drive. CSRA also moved its headquarters from Fairfax Center. Recent increases in Federal cybersecurity spending have benefited Route 28 South because of the high concentration of intelligence agencies in the submarket.

CACI signed the largest lease in Northern Virginia – a 220,551-square foot renewal with expansion at 14360 and 14370 Newbrook Drive. While the government contractor is growing at this location, this lease is a consolidation out of 214,000 square feet at 4114 Legato Road in Fairfax Center. The next largest lease in Route 28 South also included growth as the American Registry for Internet Numbers relocation to 15049 Conference Center Drive increased its footprint by about 10,000 square feet.

Unicom moved into 458,926 square feet at 15000 and 15010 Conference Center Drive. It purchased the buildings last year for $76 per square foot after the buildings went to special servicing following move-outs by Northrop Grumman and CSC. CSRA moved from 4300 and 4350 Fair Lakes Court in Fairfax Center into 162,625 square feet at 15036 Conference Center Drive. There was one large move-out in the market as TASC gave back 79,067 square feet at 4805 Stonecroft Boulevard.

Outlook
The intelligence community in Route 28 South continues to grow as cybersecurity initiatives gain importance. Federal cybersecurity spending has increased an average of 12.3 percent annually over the last decade. COPT is currently building a government agency a 240,000-square-foot build-to-suit on Stonecroft Boulevard.
Vacancy soars with two large move-outs

Quarter in review
After posting positive net absorption for six straight years, Fairfax Center posted 349,746 square feet of negative net absorption in the first quarter of 2016 as it lost two large tenants. Fairfax Center is struggling to attract demand due in part to changing market preferences for Metro-accessible locations.

CSRA moved from 290,000 square feet at 4300 and 4350 Fair Lakes Boulevard to 15036 Conference Center Drive in Route 28 South. Fairfax County Public Schools vacated 106,000 square feet at 3877 Fairfax Ridge Road to move to 8270 Willow Oaks Corporate Drive in Merrifield.

Leasing activity was limited in the first quarter as no tenants signed leases above 10,000 square feet. CityWorth Mortgage signed the largest lease by taking 8,529 square feet at 11781 Lee Jackson Highway.

Lerner sold two buildings in Fairfax Center during the first quarter. A&A Properties purchased 3211 Jermantown Road for $21.6 million ($137 per square foot) and 10530 Rosehaven Street for $9.5 million ($75 per square foot). The price difference between the two buildings was due to 3211 Jermantown Road being fully leased by General Dynamics Information Technology, while 10530 Rosehaven Street was only 36.9 percent leased at the time of sale.

Outlook
Ample choices for tenants inside the Beltway puts vehicle-dependent submarkets in outlying markets at a relative disadvantage due to changing workforce preferences for walkable, transit-oriented development. CACI is scheduled to move out of 214,000 square feet at 4114 Legato Road in Q4 2016 to consolidate in Route 28 South, which will push vacancy to 25.6 percent.

The limited tenant demand in Fairfax Center has halted development for the past few years. The last building to deliver was in 2006 and none of the six proposed office developments are expected to break ground until vacancy falls.
Quarter in review

Activity remained limited in Springfield during the first quarter of 2016 as only one tenant signed a lease above 10,000 square feet. The anticipated increase in contracting demand from the National Geospatial-Intelligence Agency (NGA) has not materialized. However, contracting is expected to pick up in the next 24 months as cybersecurity spending increases.

The limited growth in Springfield is mainly attributable to depressed levels of federal procurement spending throughout the region, inclusive of the NGA. But the recent $1.1 trillion spending bill is expected to increase NGA contracting.

The largest lease of the quarter was signed by the U.S. General Services Administration, which took 36,000 square feet at 6315 Bren Mar Drive.

The negative net absorption was caused by Orbital ATK vacating 33,412 square feet at 8560 Cinder Bed Road. Flour Enterprises expanded by 13,536 square feet at 6621 Electronic Drive.

There are currently seven 50,000-square-foot blocks available. The blocks have sat vacant for an average of 35 months. Vacancy remains much higher in Class A space after limited tenant activity has left newly delivered buildings vacant. Class A vacancy stands at 38.2 percent compared with 17.8 percent and 15.2 percent in Class B and C segments, respectively.

Outlook

Although the past few years have seen increased development, the sudden increase in vacancy has led to a limited pipeline with no buildings under construction. Three buildings delivered in 2013 and so far only 46,398 square feet of leases have been signed at the properties. With increased contracting activity expected to come out of the NGA, leasing could pick up in Springfield in the next two years.
Construction activity moves forward

Quarter in review
Construction activity remained hot in Loudoun County due to build-to-suits. Loudoun County was the only submarket to have any buildings deliver in Northern Virginia during 2015 and there are three currently under construction with another two scheduled to begin construction soon. The county posted negative net absorption for the first time in a year due to small move-outs.

There are three fully leased buildings currently under construction. 600 Hope Parkway SE is scheduled to deliver in the second quarter and will be occupied by K2M. EIT LLC will occupy 309 Kelly’s Ford Plaza SE – a 64,800-square-foot building. U.S. Customs and Border Protection will occupy 182,000 square feet at 22318 Glenn Drive.

Two companies also announced plans to begin construction this year. Integris Holdings will move its headquarters into a 44,000-square-foot building at One Loudoun. JK Moving Services purchased a 42-acre site for $14.0 million in Route 28 North to build its headquarters. The campus will consist of four warehouse buildings and an 80,000-square-foot office building.

Outlook
Two Metro stations in Loudoun are planned as part of the Silver Line’s Phase II extension, which is scheduled to deliver in 2020. There are numerous mixed-use projects under development in Loudoun County, including Loudoun Station and One Loudoun, which are attempting to attract tenants drawn to walkable amenities and public transit accessibility.

The data center market continues to thrive in Loudoun County. Northern Virginia is the largest data center market in the country and an estimated 70.0 percent of all internet traffic passes through Loudoun County.
Limited activity in Prince William County

Quarter in review
Activity was limited in Prince William County during the first quarter. Only one tenant signed a lease over 10,000 square feet. A handful of small move-ins pushed total vacancy to the lowest level since 2008. Although the data center market in Prince William County is not as large as in Loudoun County, activity continues to heat up as one major user announced plans to build a data center campus.

BerkleyNet signed a 49,000-square-foot lease at 9301 Innovation Drive. The insurance company will occupy 70.0 percent of the building in Innovation Park when it delivers in 2017. There were no other leases signed above 10,000 square feet. The positive net absorption this quarter was caused by numerous small tenants moving into 14,400 square feet of space at 1308 Devils Reach Road in Woodbridge.

Iron Mountain announced plans to build a $350.0-million data center in Manassas. Construction will include three buildings on 83 acres at 11 Hayden Road.

Outlook
9301 Innovation Drive will be the only office building under construction in Prince William County when it begins this year. There is only 9,828 square feet of space available in the 73,500-square-foot building.

SunCal is planning 3.8 million square feet of commercial development around the under-construction Potomac Shores VRE Station. The Virginia Railway Express Operations Board is also studying whether to build an extension of the Manassas line to Haymarket and Gainesville. If built, however, that extension would not open until approximately 2025.

Annual net absorption has only been negative once in Prince William County since 2013, but growth has been limited. Over the last five years, the county has averaged just 16,710 square feet of positive net absorption per year.