

# Mid-Year Northern Virginia Forecast

July 16<sup>th</sup>, 2014

# NAIOP

COMMERCIAL REAL ESTATE  
DEVELOPMENT ASSOCIATION

# Agenda

- **Northern Virginia Economy**
- **Office Market**
- **Looking Forward**

# DC Metro Economic Indicators

- Highest Median Household income in the nation

**\$88k**

- Most well educated workforce in the nation

**48%**

- Fortune 500 Company Headquarters

**17**

- Major population growth market

**41,000**

# DC Metro Economic Indicators

- Highest Median Household income in the nation

**\$88k**

- Most well educated workforce in the nation

**48%**

- Fortune 500 Company Headquarters

**17**

- Major population growth market

**41,000**

# Northern Virginia Economic Indicators

- Highest Median Household income in the nation

**\$101k**

- Most well educated workforce in the nation

**56%**

- Fortune 500 Company Headquarters

**11 / 65%**

- Major population growth market

**18k / 45%**

# Office Job Growth has Stalled

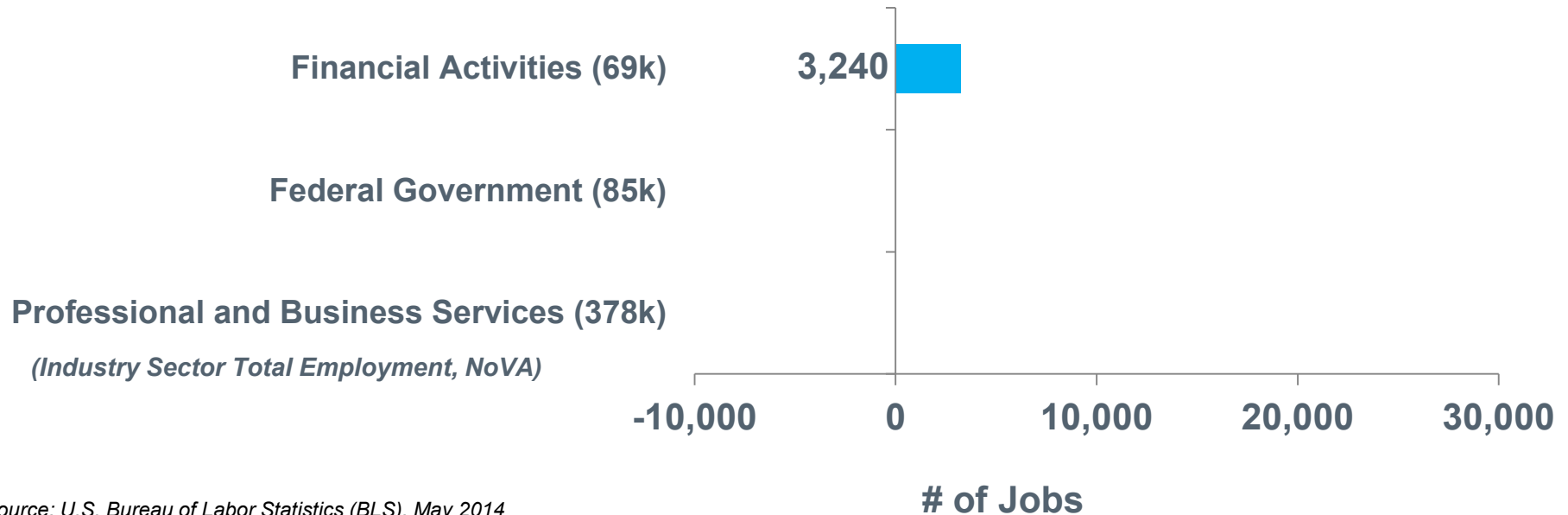
Office Employment – Northern Virginia 4Q2009 – 4Q2012



Source: U.S. Bureau of Labor Statistics (BLS), May 2014

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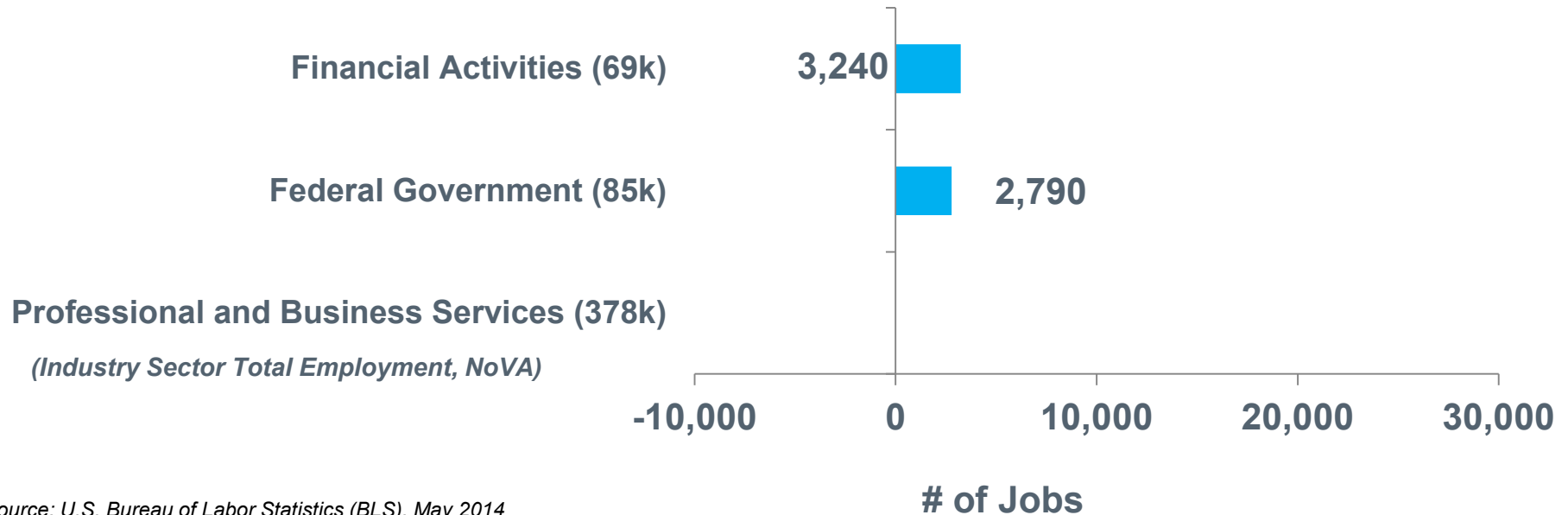
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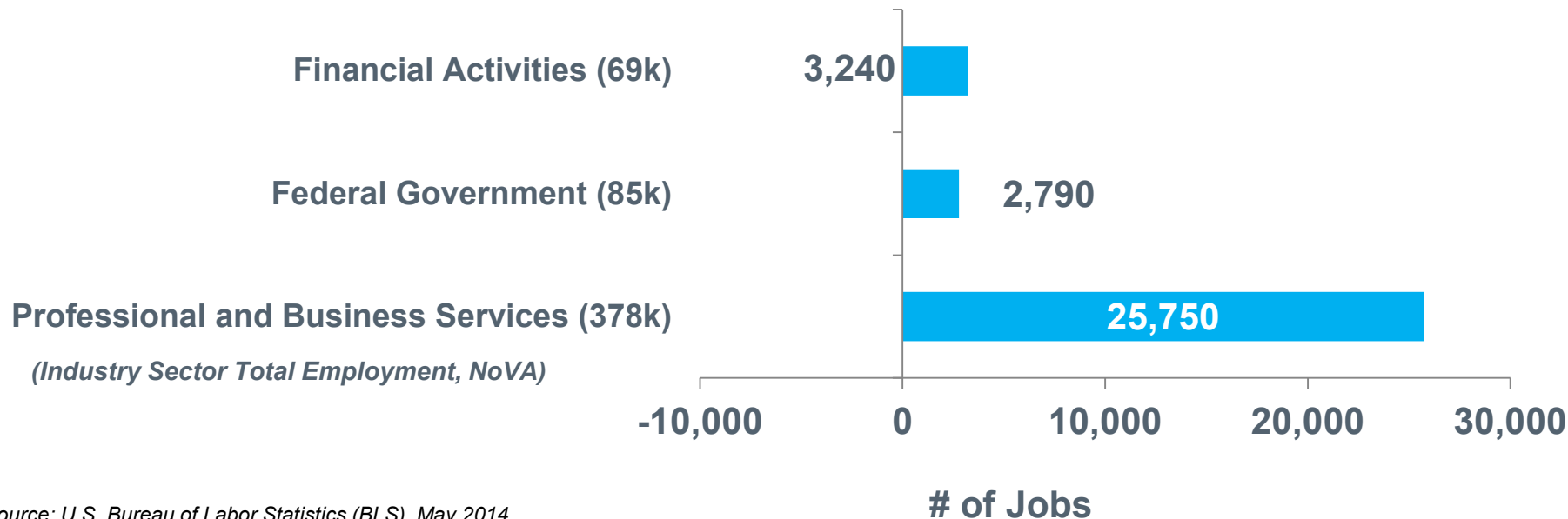


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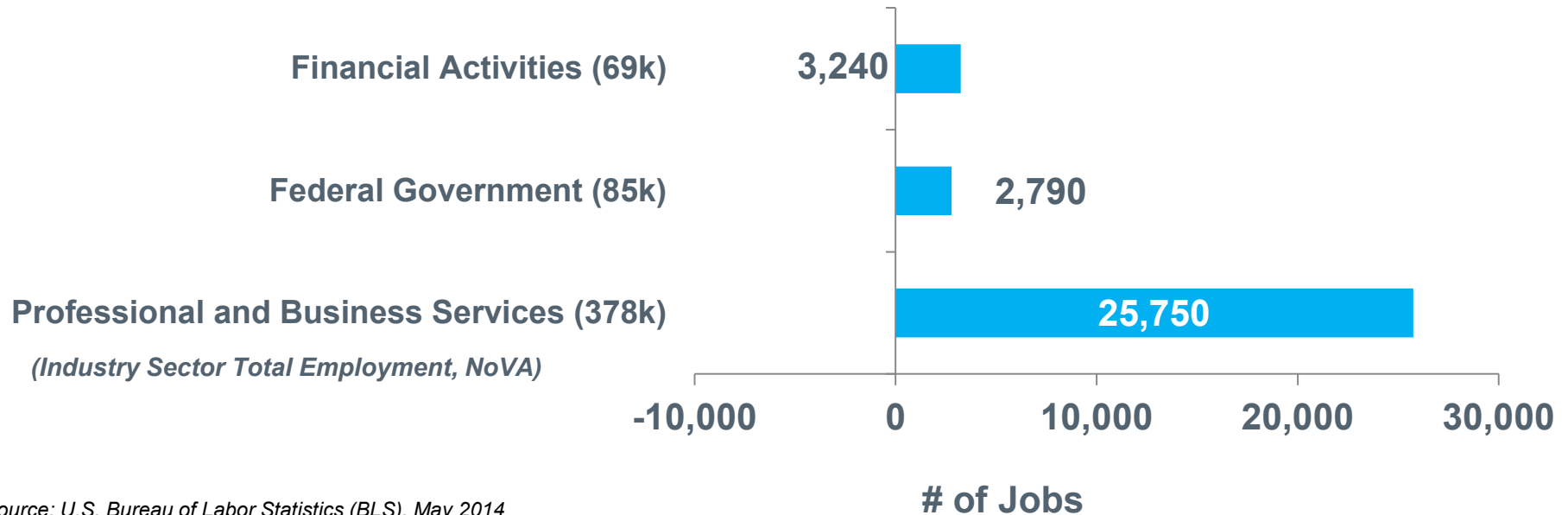
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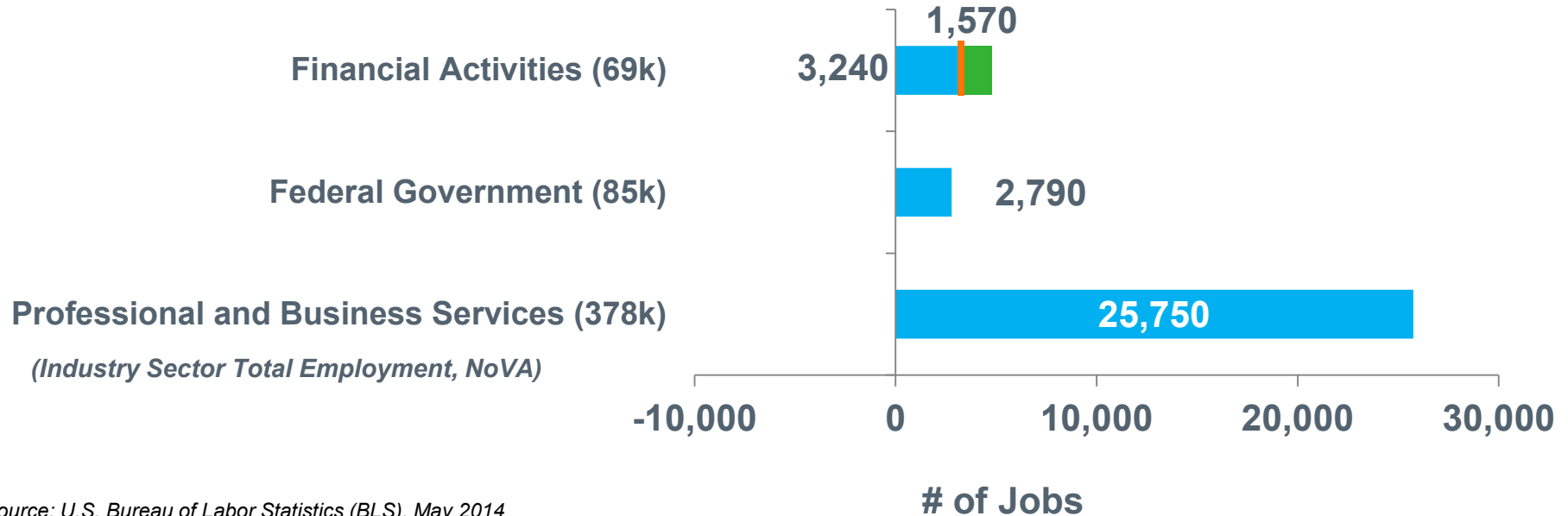
Office Employment – Northern Virginia **4Q2009 – 4Q2012** / **1Q2013 – 2Q2014**



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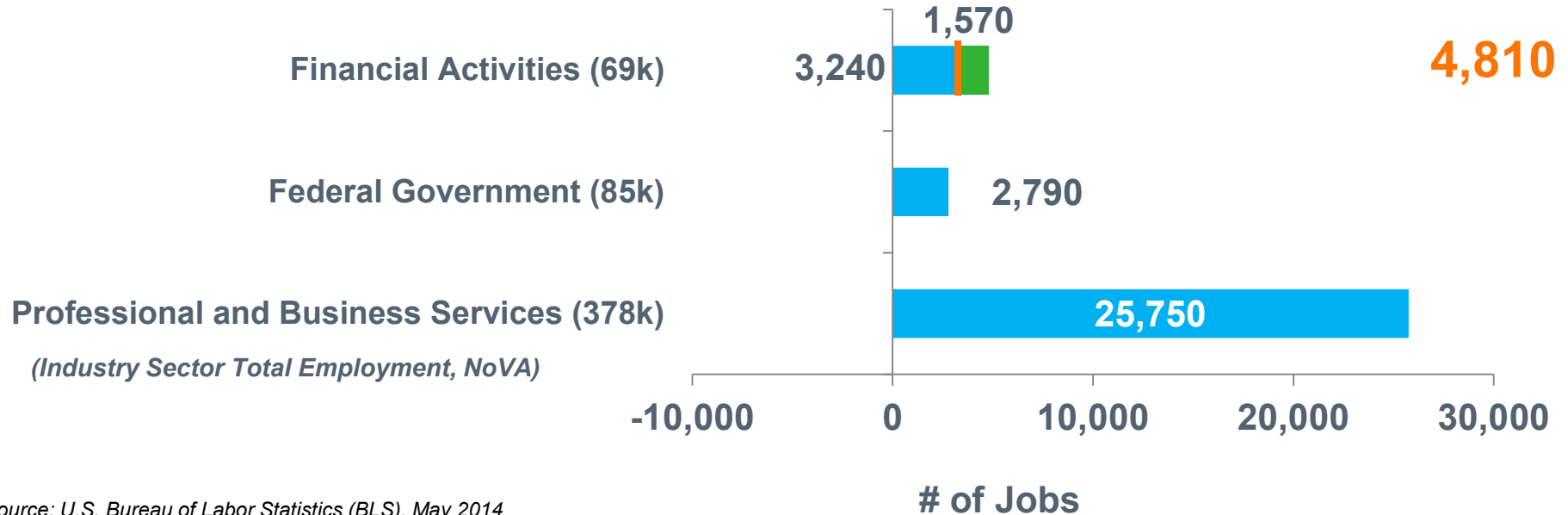


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Cassidy  
Turley

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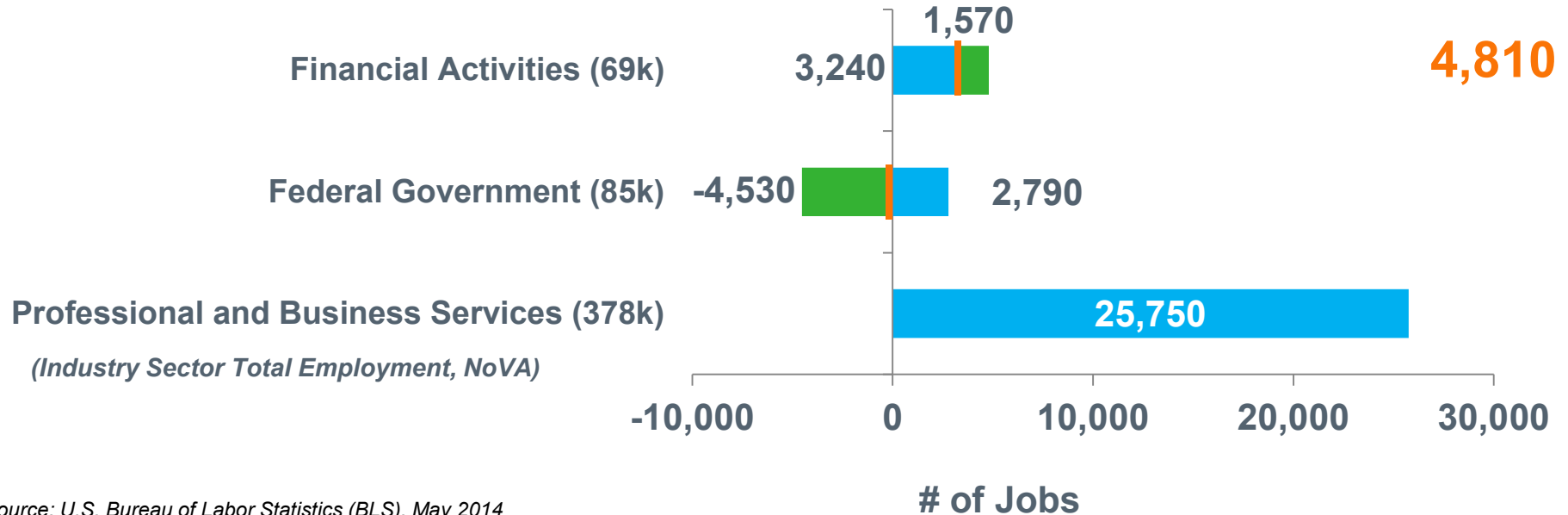


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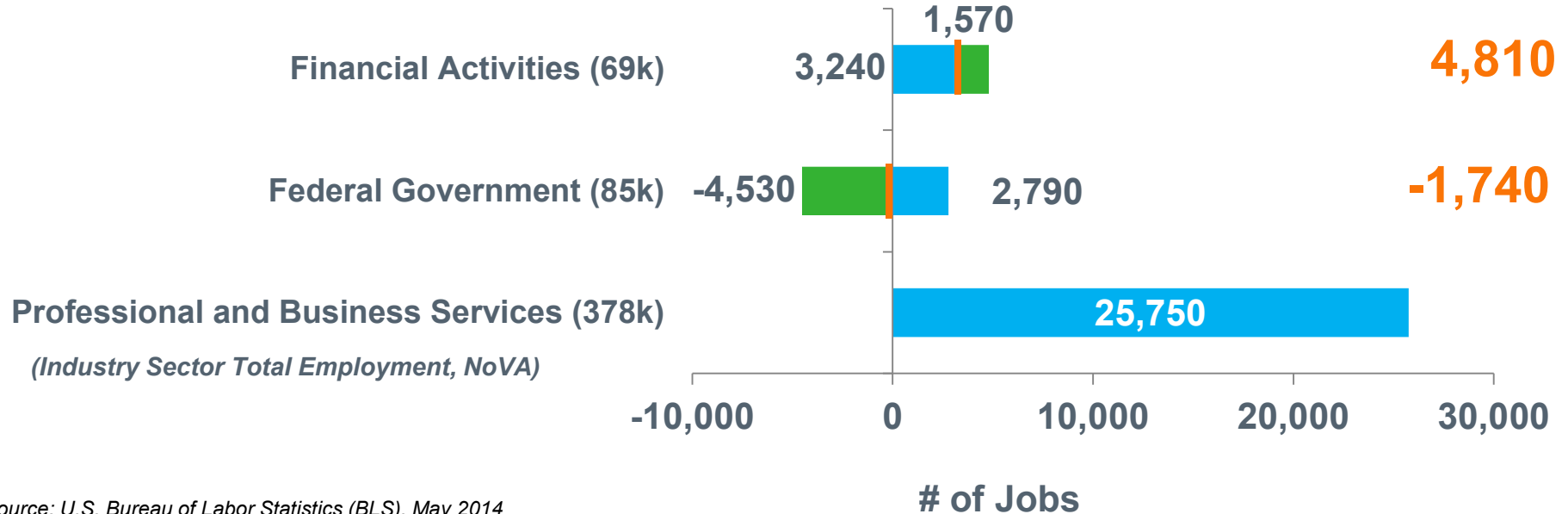


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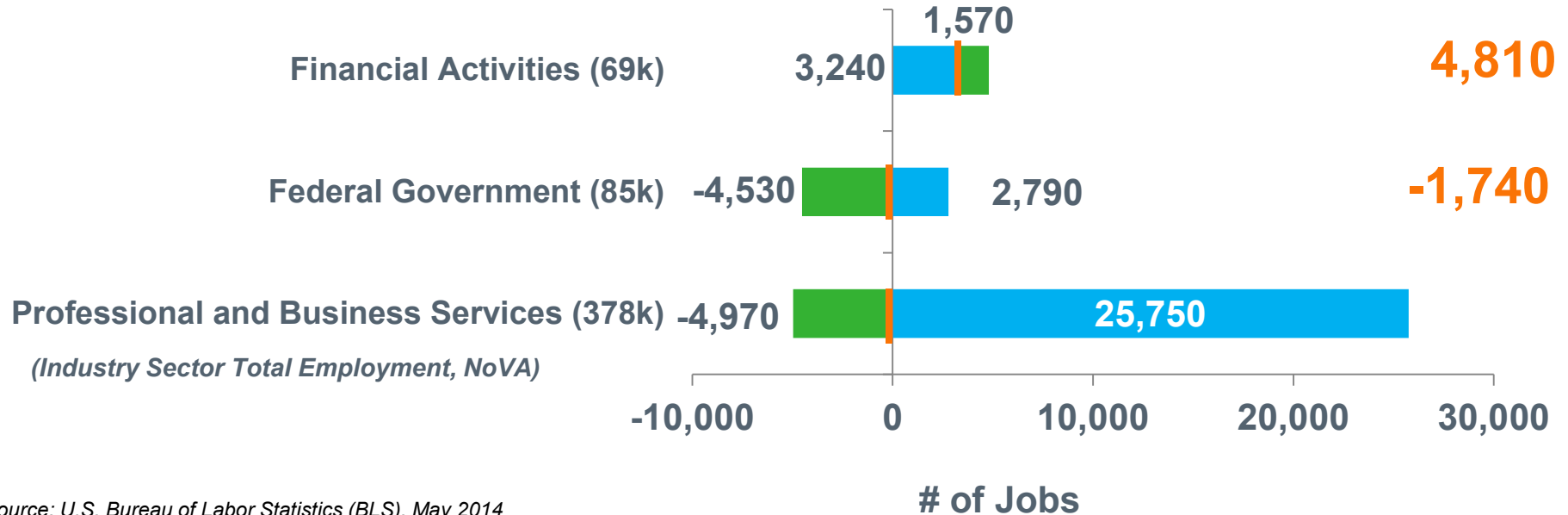


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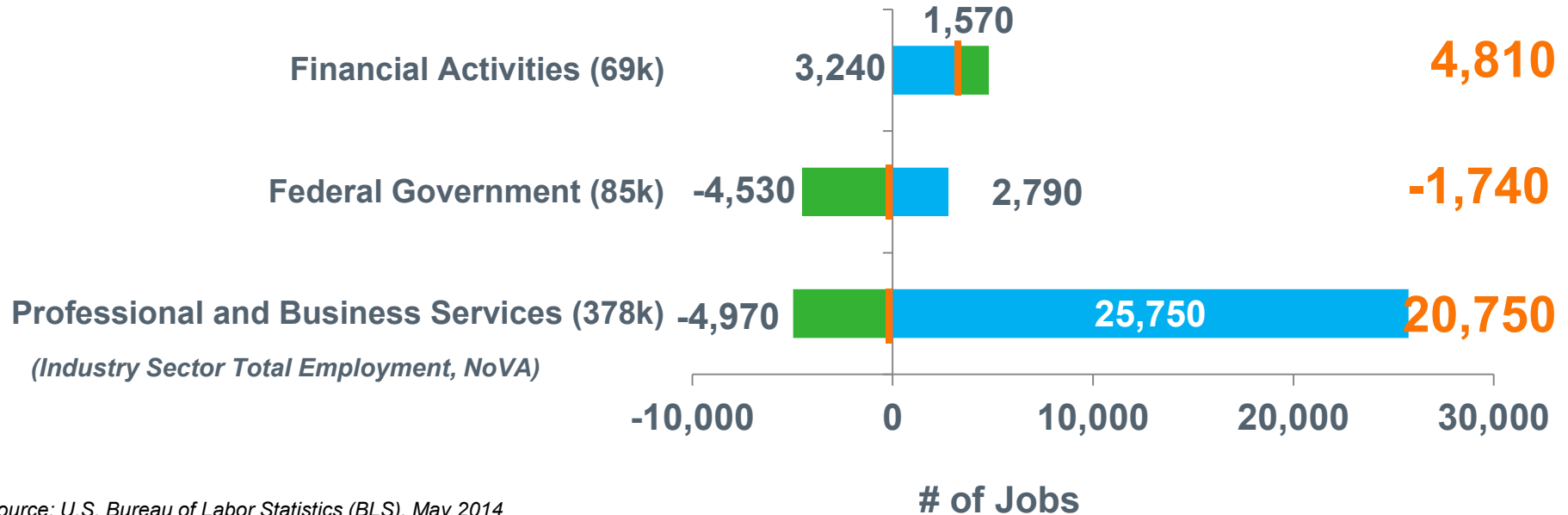


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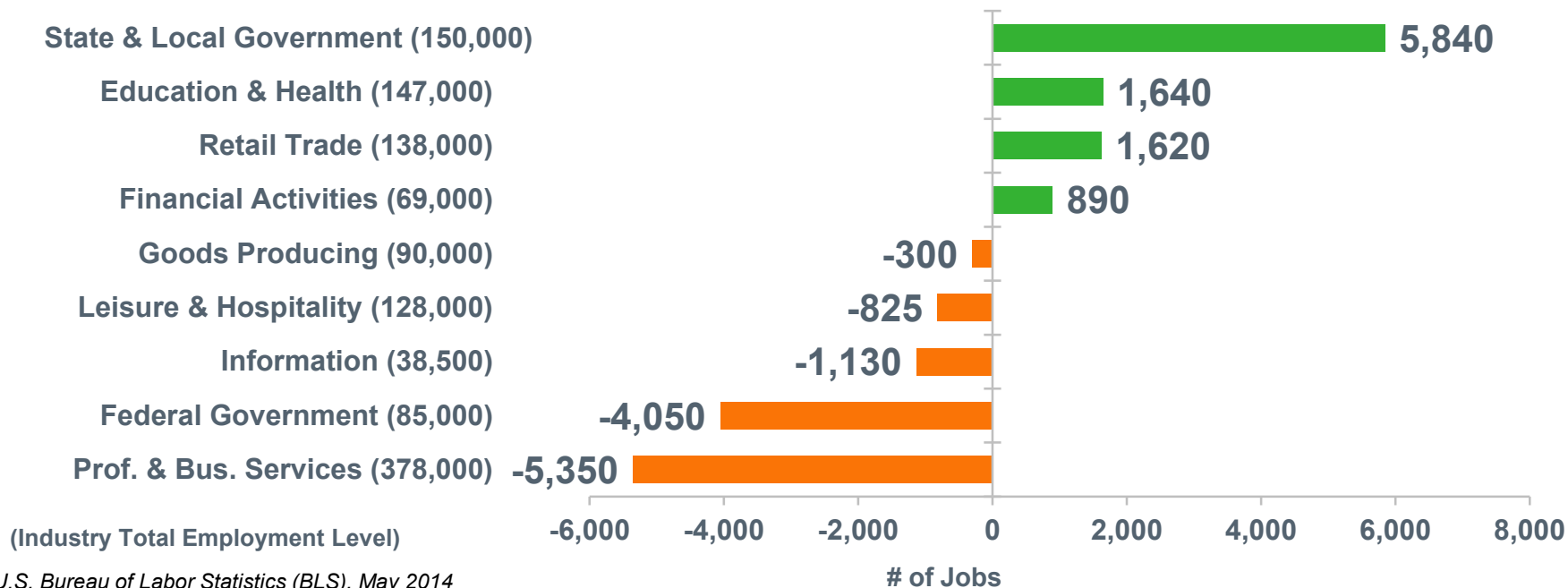


Source: U.S. Bureau of Labor Statistics (BLS), May 2014



# Job Growth/Decline by Industry

Northern Virginia, May 2014 vs. May 2013



Source: U.S. Bureau of Labor Statistics (BLS), May 2014

# NoVA Now Lagging DC Metro

## Northern Virginia Job Growth vs. Rest of the Metro Region

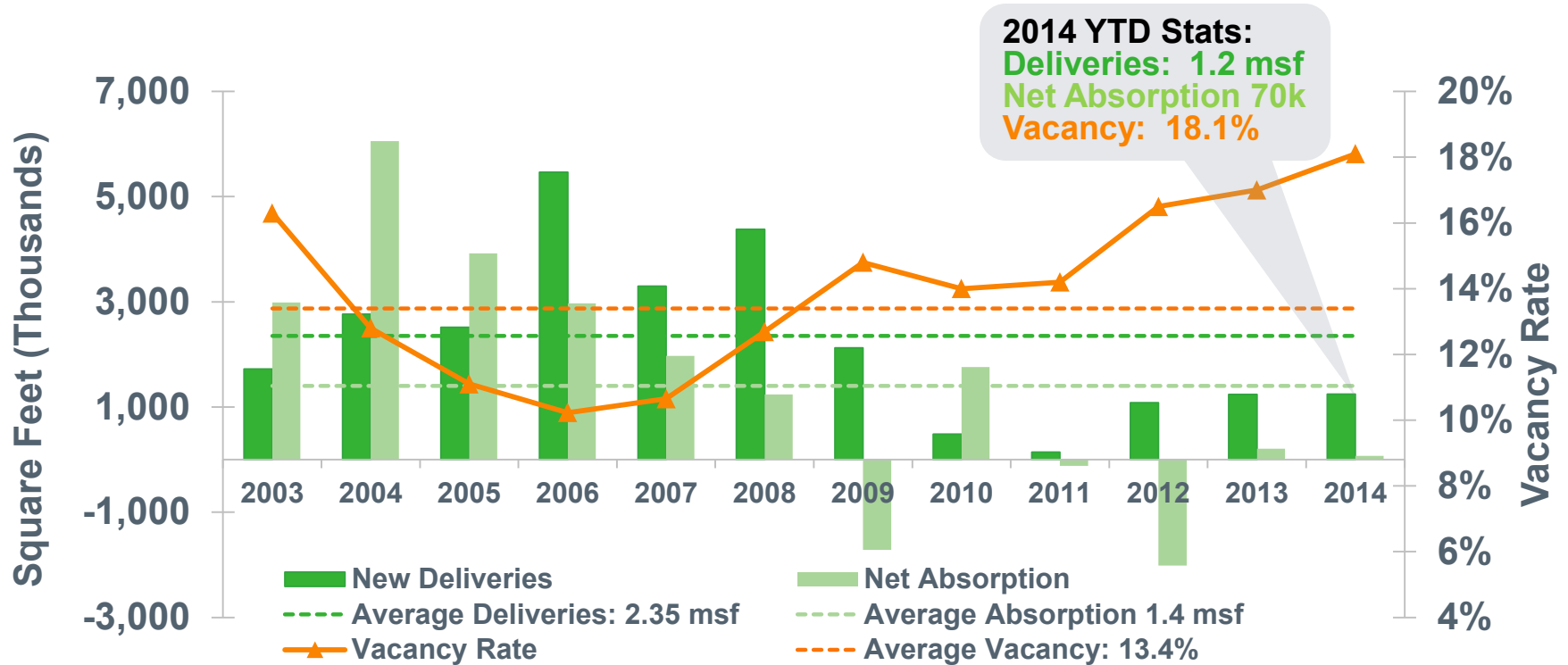


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# A Challenging Environment

# Northern Virginia

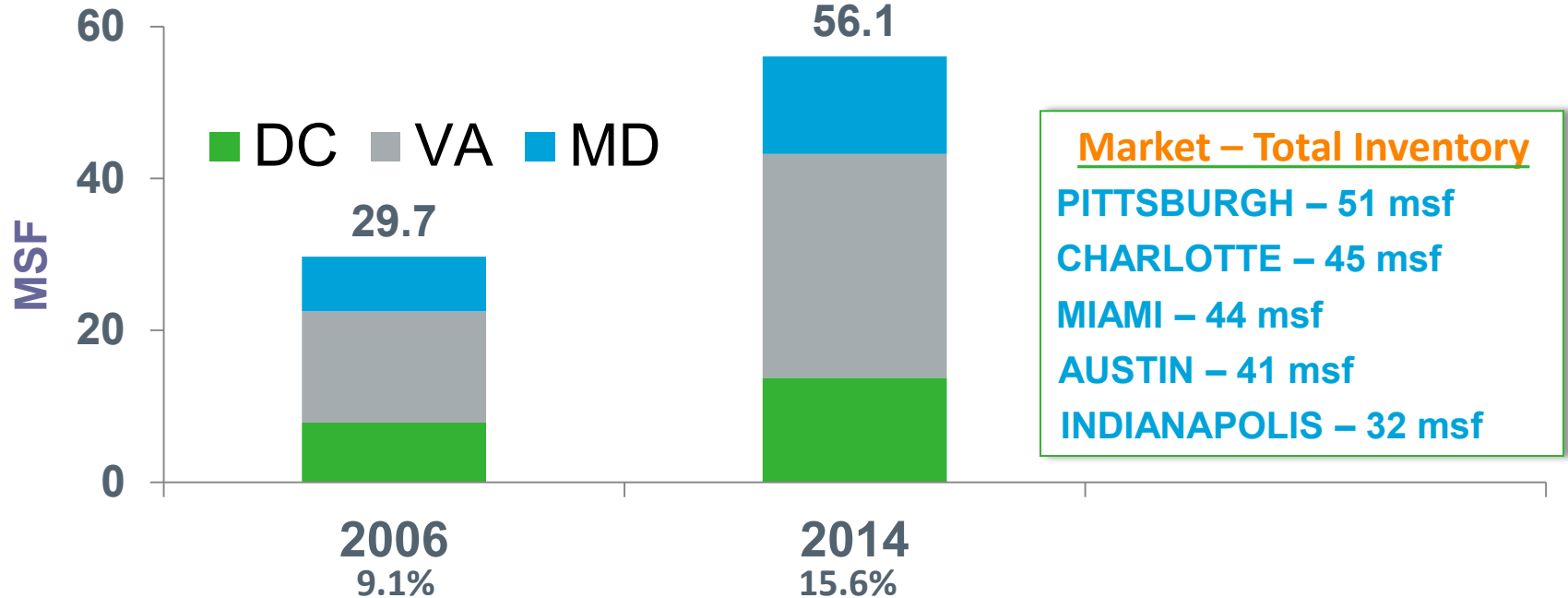
## Office Leasing Fundamentals



Source: Cassidy Turley

# Vacancy

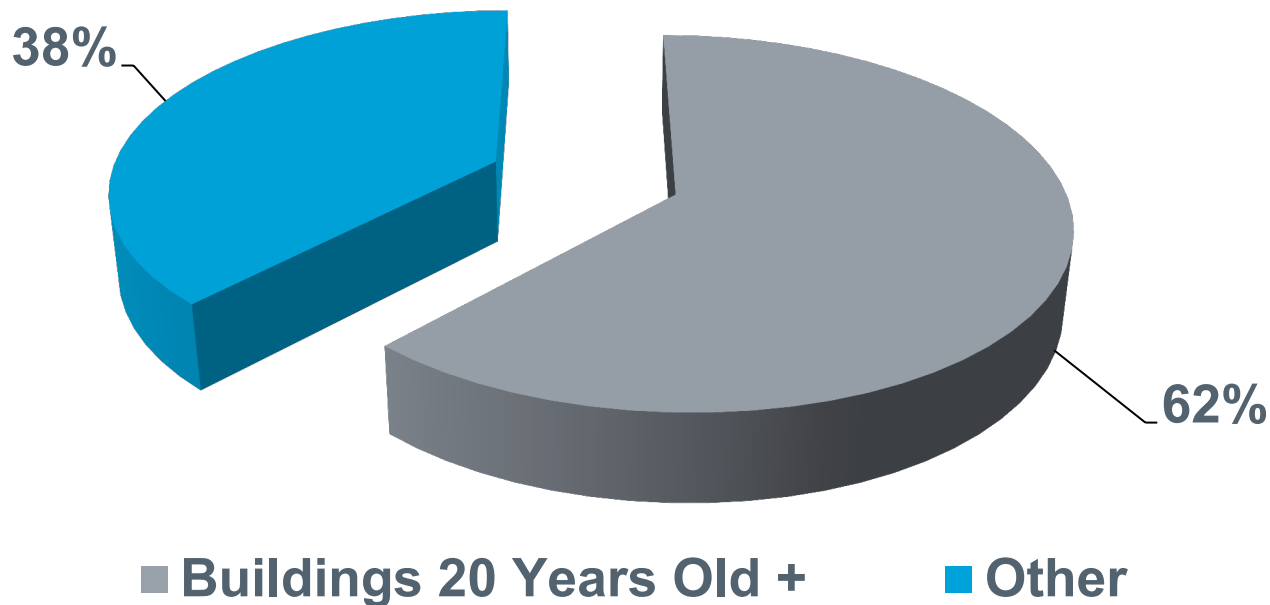
54.7 million vacant square feet in the DC Metro – all time high



Source: Cassidy Turley

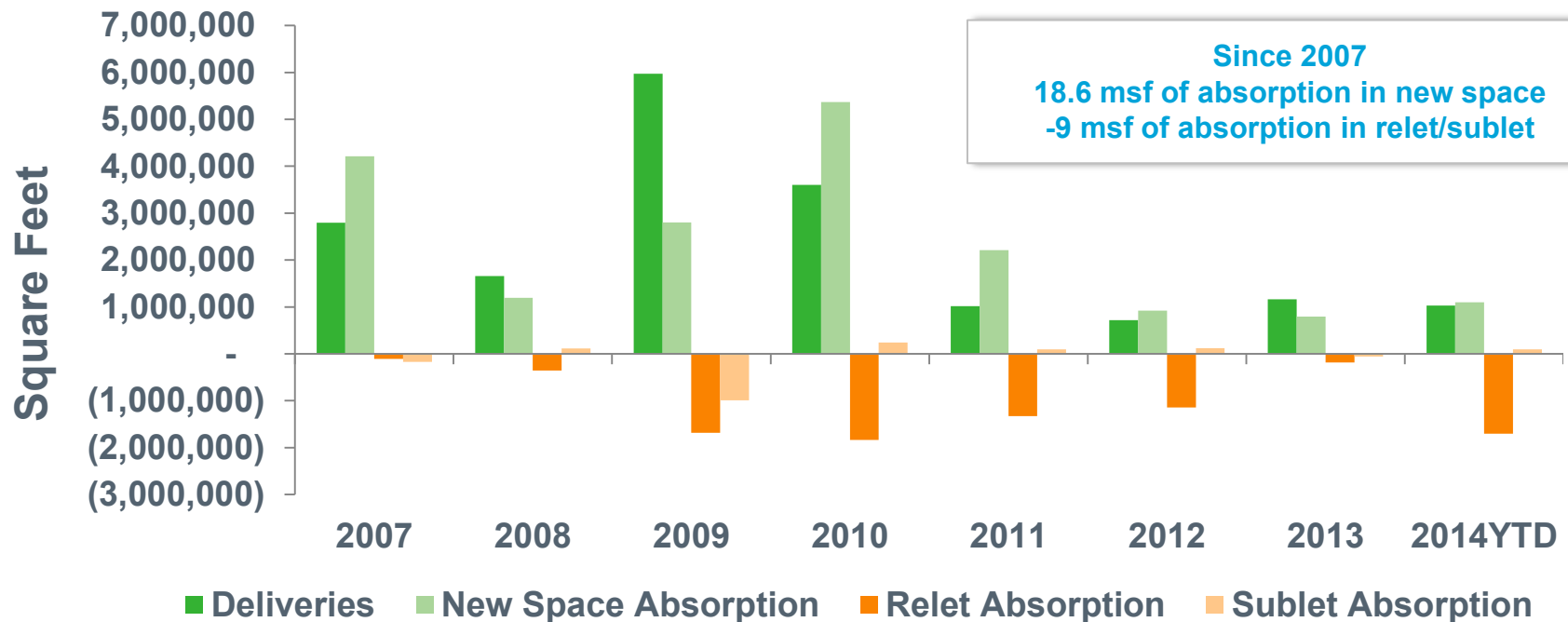
# Aging Office Product

Nearly Two-thirds of Nova Office at or Near the End of Economic Life



# Demand for New Space

## Washington, DC: New vs. Relet Absorption

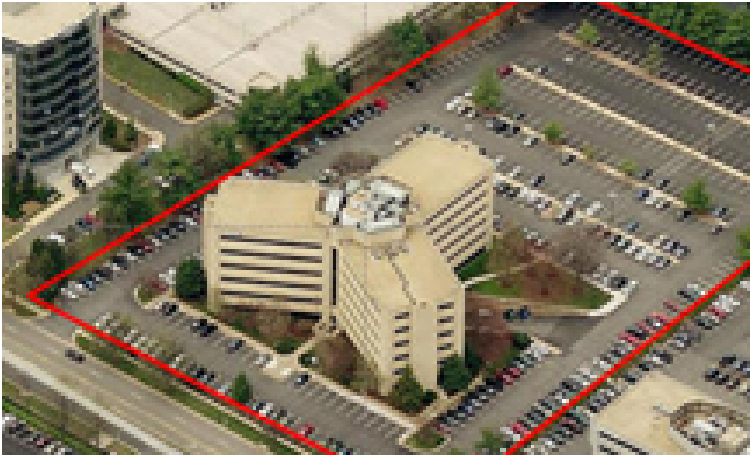


Source: Cassidy Turley

# Structural Vacancy

**4 Million Square Feet (2.5%) Vacant for at least three years**

**7915 Jones Branch**



**400 Army Navy**





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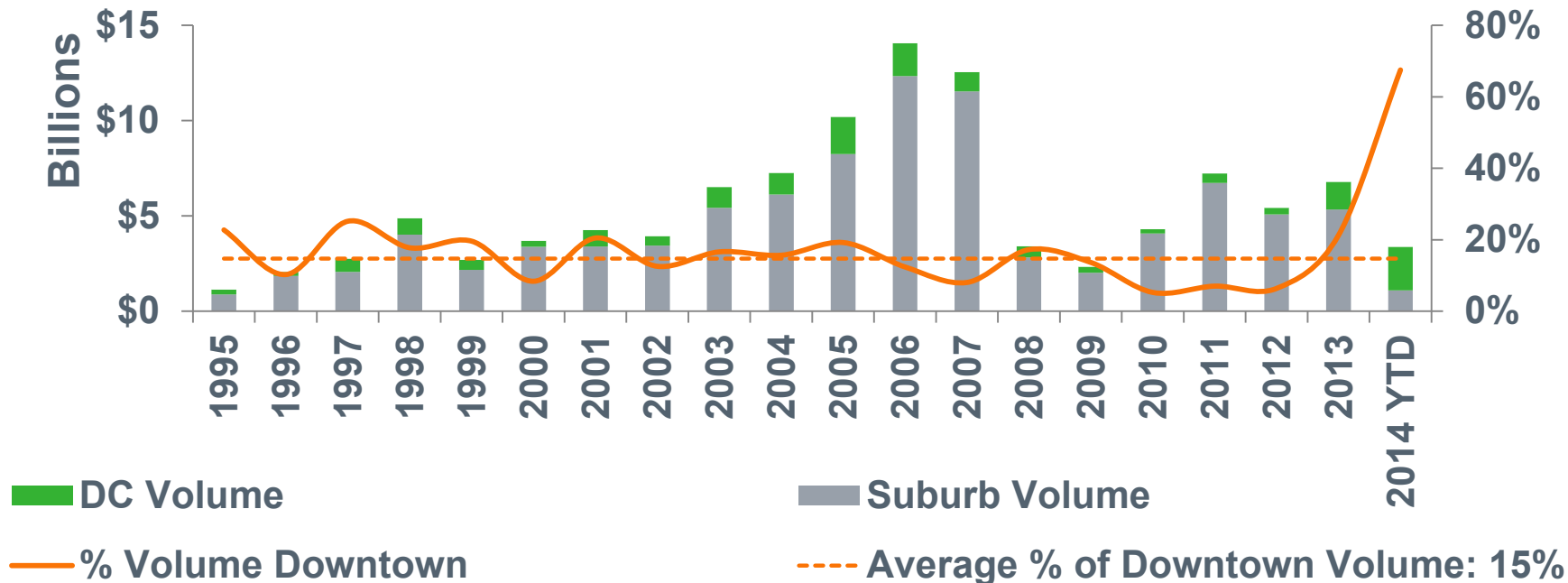


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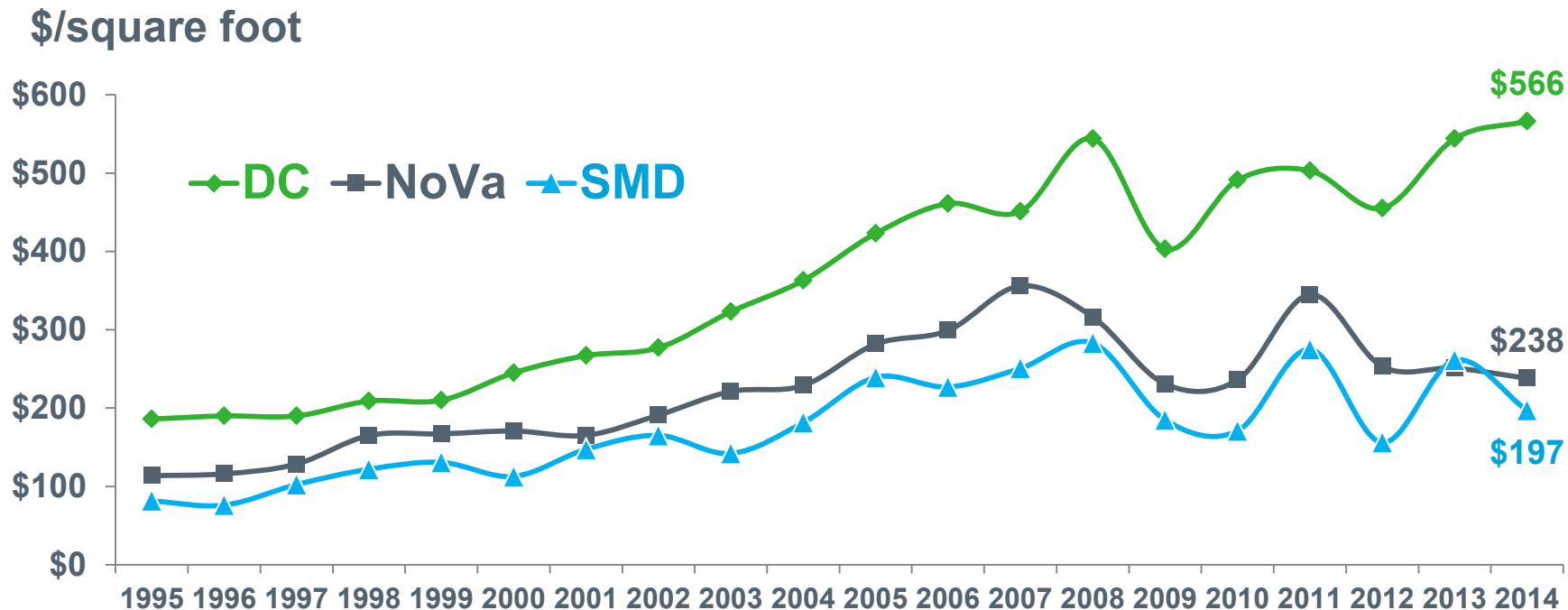


# Downtown is where the action is

## Downtown Sales Volume as a % of Total Metro Volume



# Suburban Office Pricing Stuck at 2004 Levels



Source: Cassidy Turley

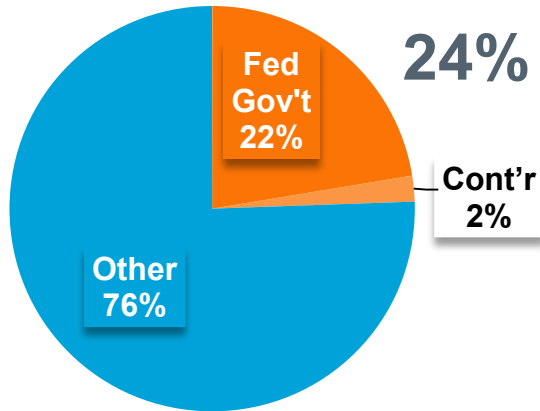
## Main Drivers

- GSA
- Government Contractors

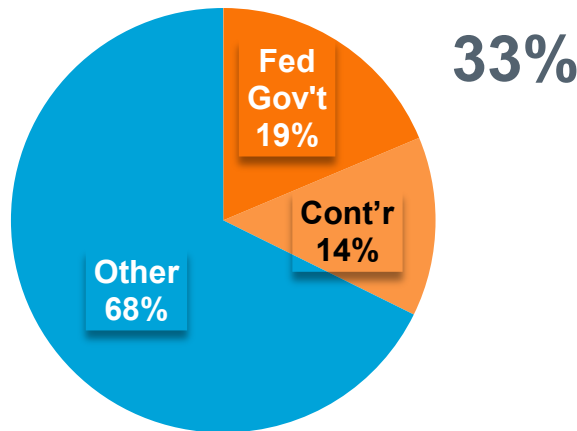
# Office Leasing Directly Tied to the Gov't

## Occupied Office Space

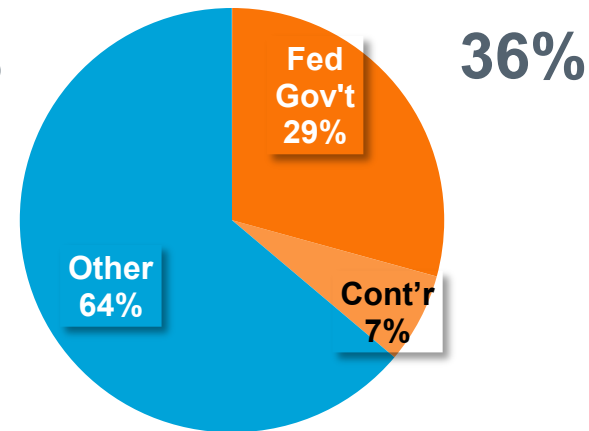
The District  
123 msf



Northern VA  
163 msf



Suburban MD  
73 msf



# GSA Lease Activity

1.4 MSF of GSA leases are currently in holdover in Northern Virginia – 6.6% of their total 21 msf footprint

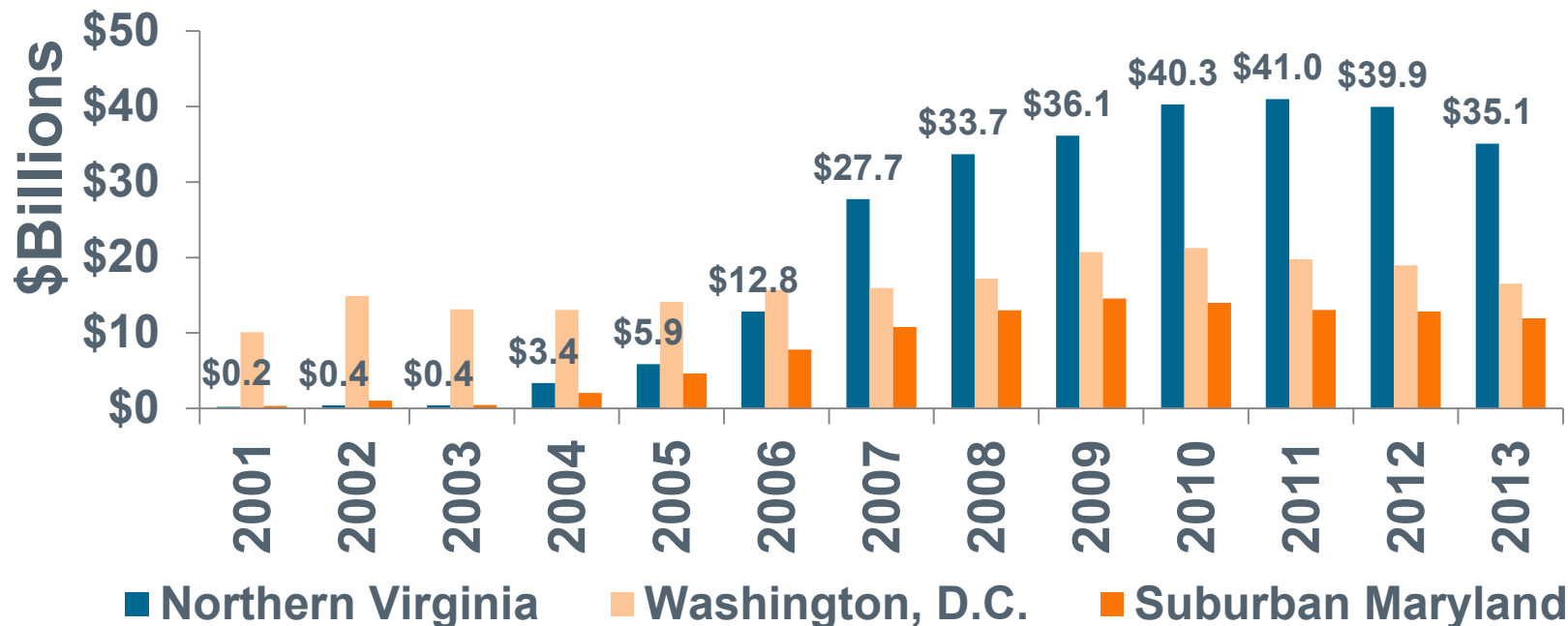
## Northern Virginia



- **Contractor CEOs Site**
  - Tougher competition
  - More task-order oriented contracts
  - More contracts being awarded on price alone
  - More protests
  - Margin pressure

# Federal Procurement

Down 12% in NoVA over 2012 figures (down 13% in DC, 7% in MD)

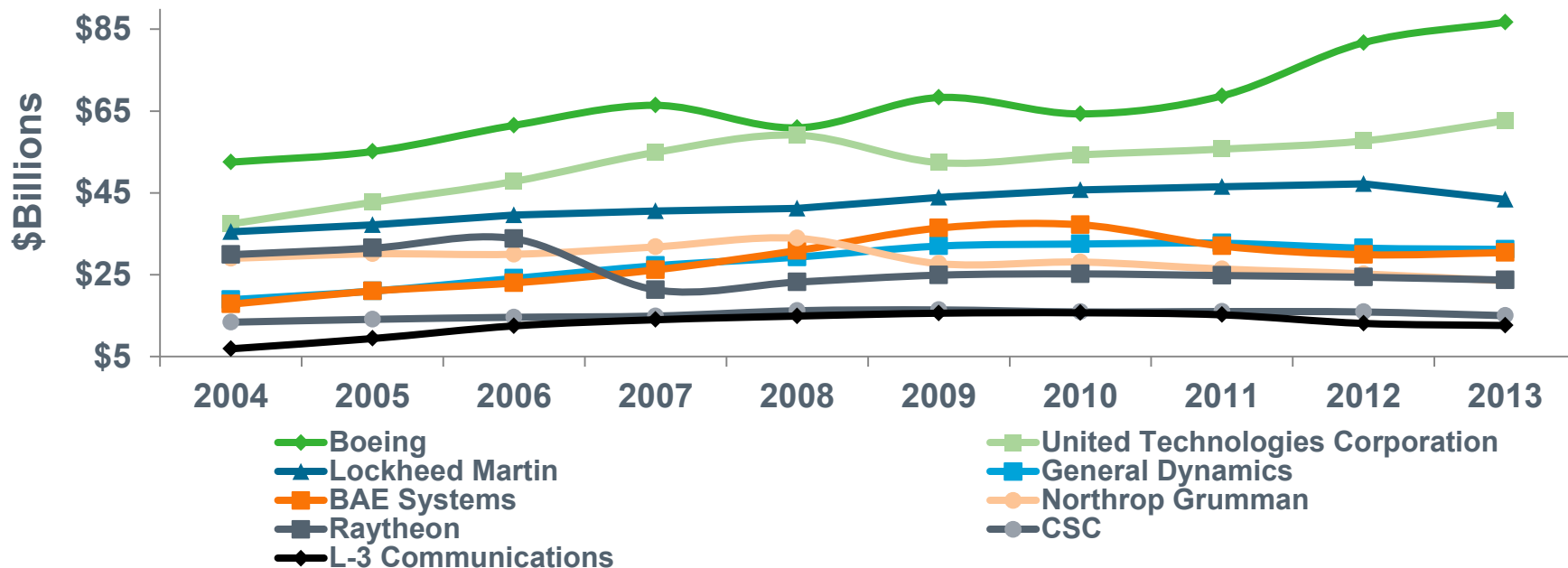


Source: Federal Procurement Data System



# Net Sales

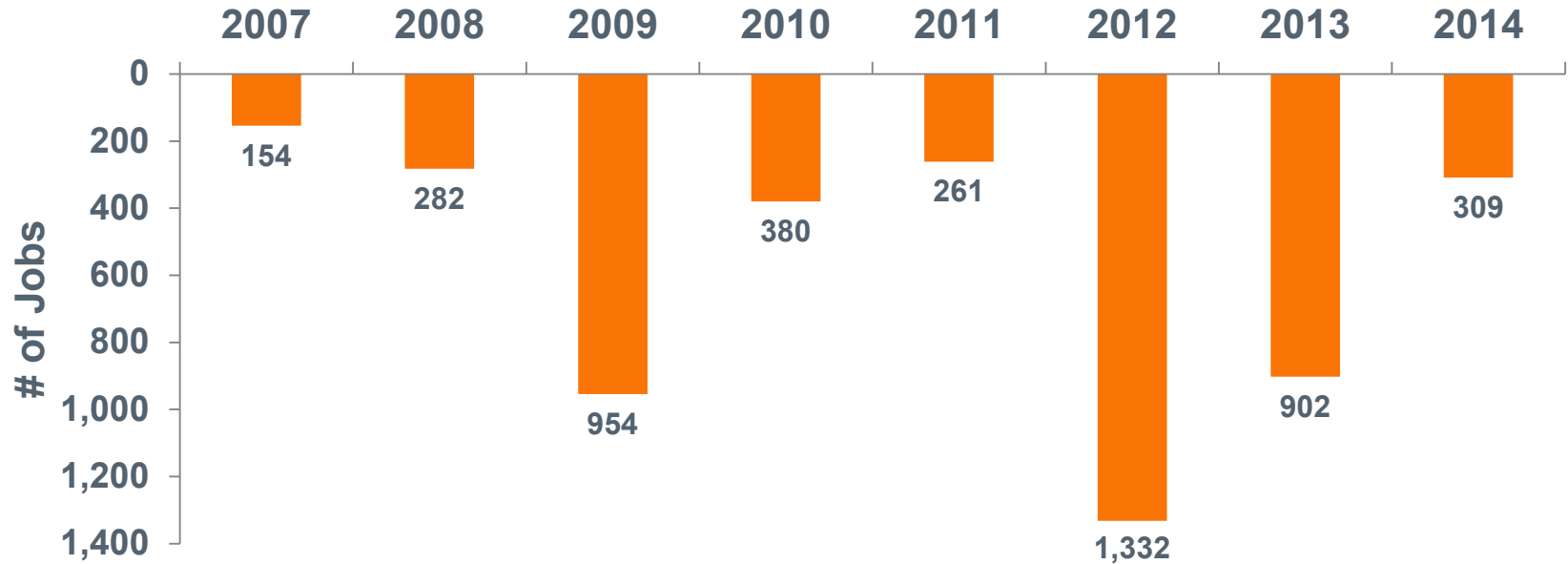
## Select Publicly Traded Government Contractors



Source: Cassidy Turley

# Contractors

## Layoffs are Significant



Source: Department of Labor

## Recent Large Contractor Moves

TENANT	ADDRESS	SUBMARKET	SF	RENT	Tis	Free Rent	Term
Dyncorp	1700 Old Meadow Road	Tysons Corner	80k	\$28.50	As-Is	12 months	11 Years
Harris	2235 Monroe Street	Reston	160k	\$30.00	\$40	8 months	10 Years
SRA International	15036 Conference Center Drive	Route 28 South	160k	\$28.50	\$40	8 months	15 Years

# SF/Worker Ratio

Cassidy  
Turley//

Will a declining ratio negate the demand from job growth?

Total Metro  
Jobs Forecast

X

% of total jobs to  
each market

X

% of office  
jobs

X

SF/Worker Ratio  
= Absorption

**45k**  
METRO  
JOBS in  
2014

25%

**11k DC**

55%

**6k DC**

200 sf

**1.2 msf**

45%

**20k VA**

40%

**8k VA**

200 sf

**1.6 msf**

30%

**14k MD**

35%

**5k MD**

200 sf

**1 msf**

**3.8 msf Absorption**

Source: Cassidy Turley, Corenet

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**6k DC**

**150 sf**

**900k sf**

45%

**20k VA**

40%

**8k VA**

**150 sf**

**1.2 msf**

30%

**14k MD**

35%

**5k MD**

**150 sf**

**750k sf**

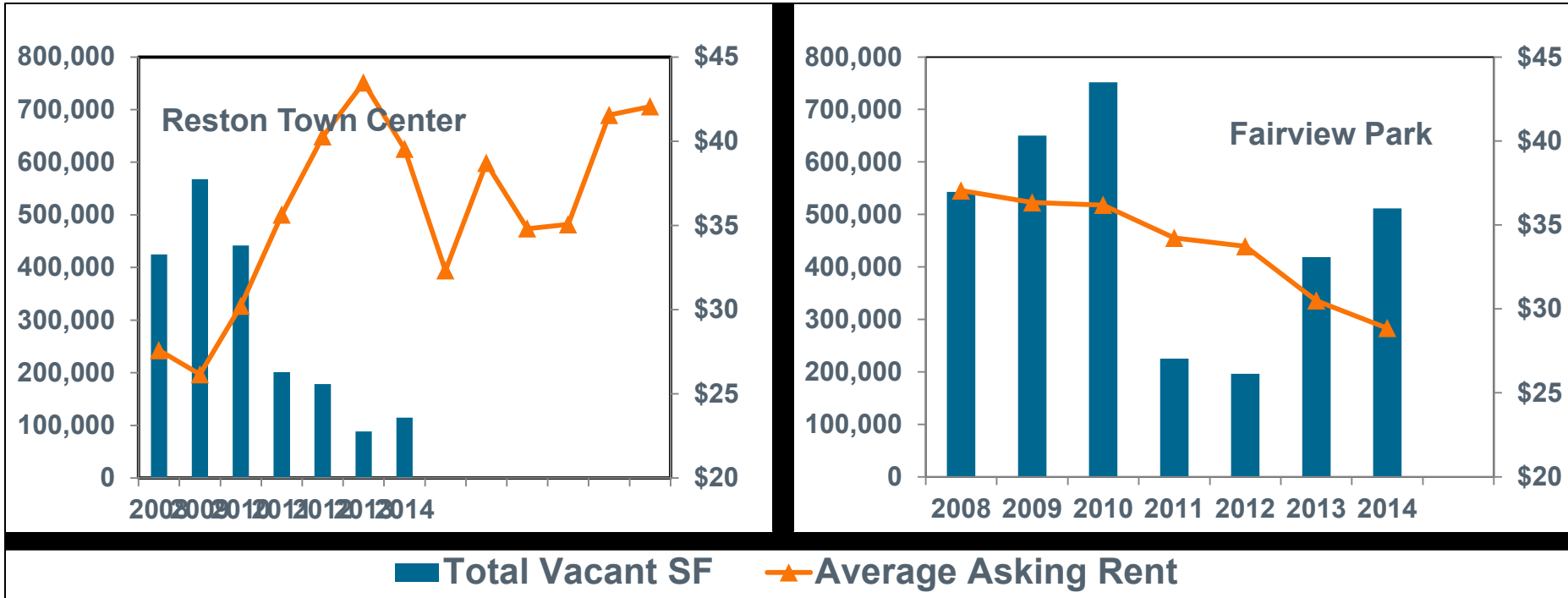
**2.85 msf Absorption**

Source: Cassidy Turley, Corenet

# The Bright Side

# What's Working

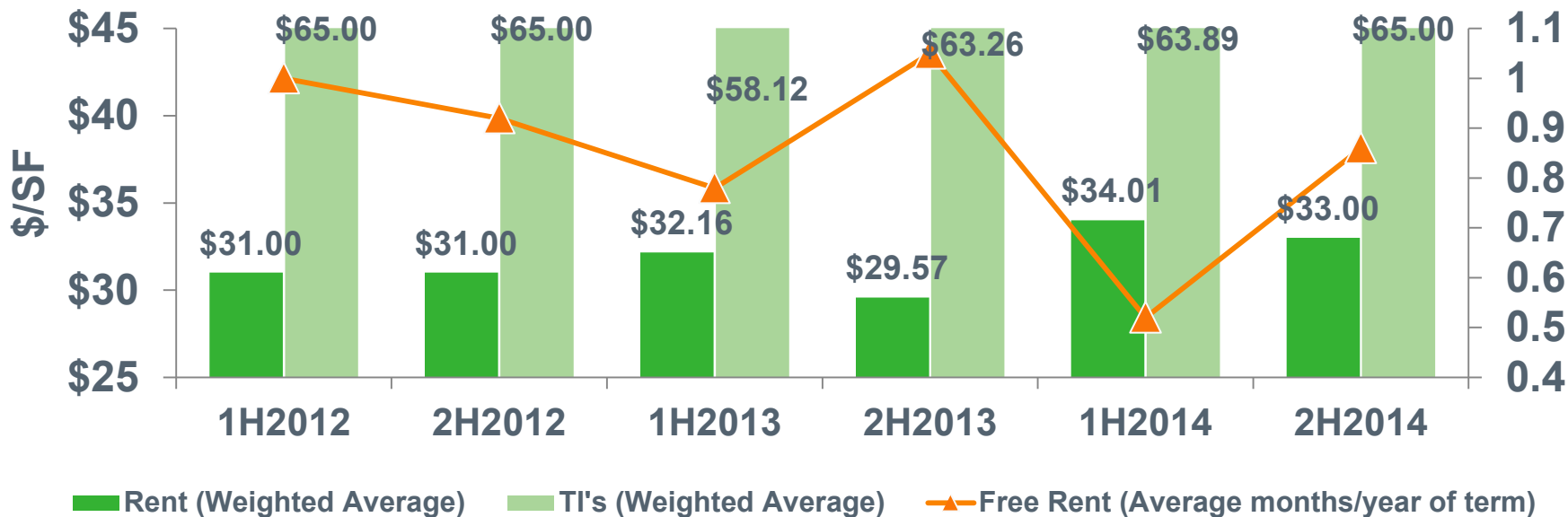
## Retail amenities more important than ever





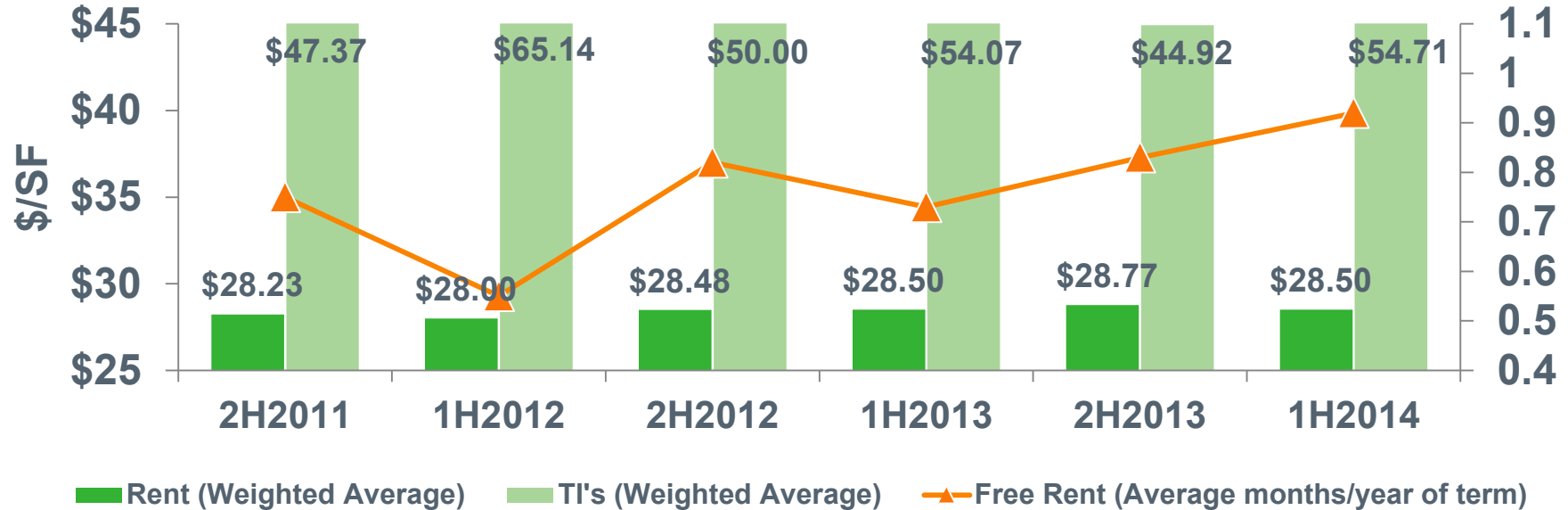
# Case Study – TMC 1

## Real Renovation VS. Checking the Boxes



# Case Study – Three Flint Hill

## Real Renovation VS. Checking the Boxes



# Looking Forward

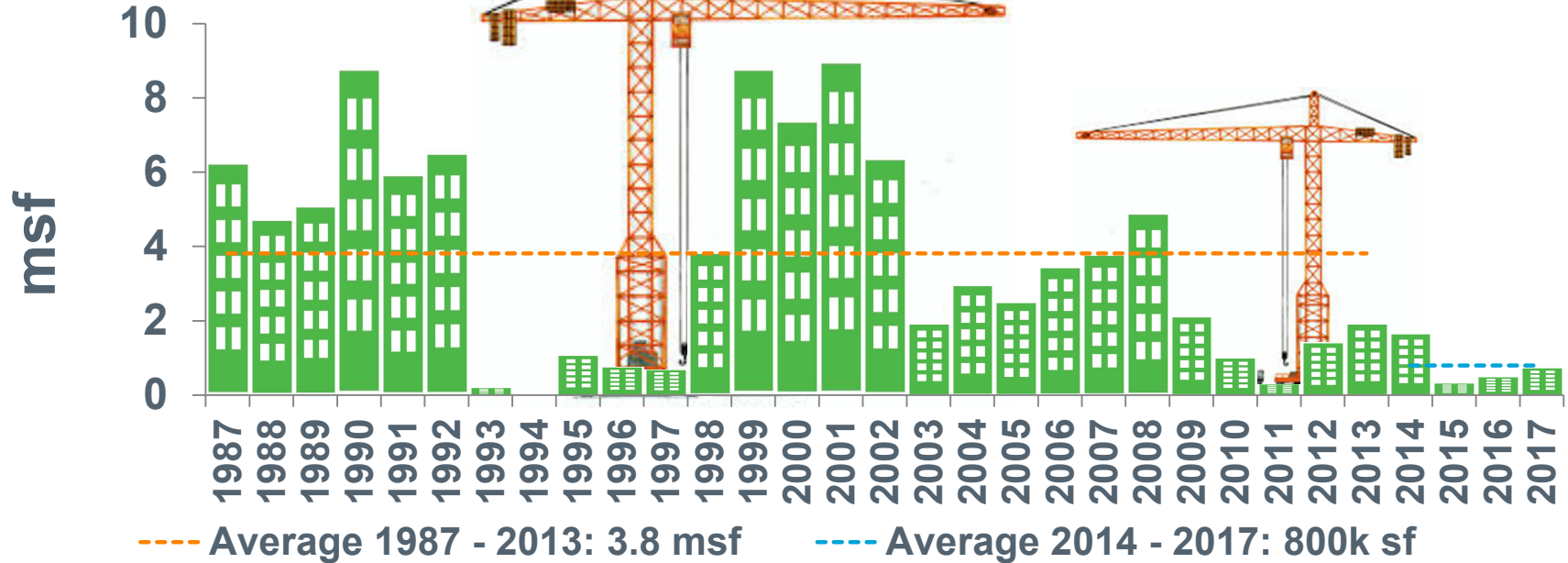
# GSA Lease Expirations

## Northern Virginia



# NoVA Supply

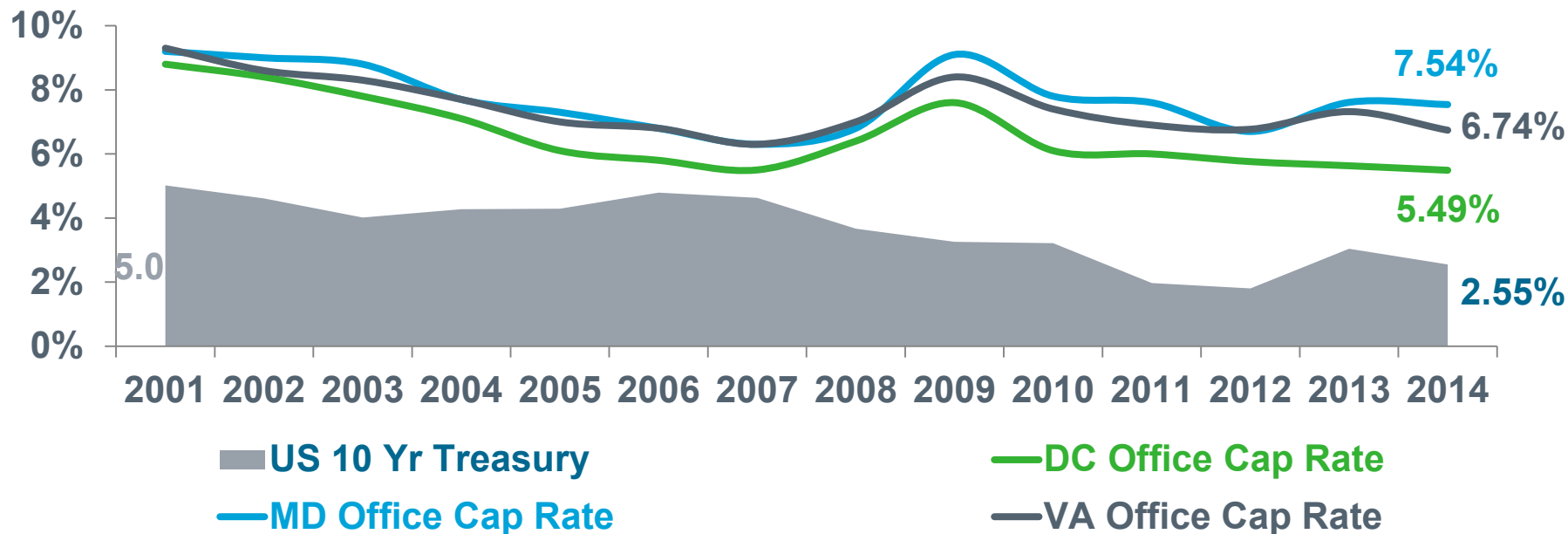
## Office Deliveries by Year



# Office Cap Rates

Washington, DC Metro Area, all classes

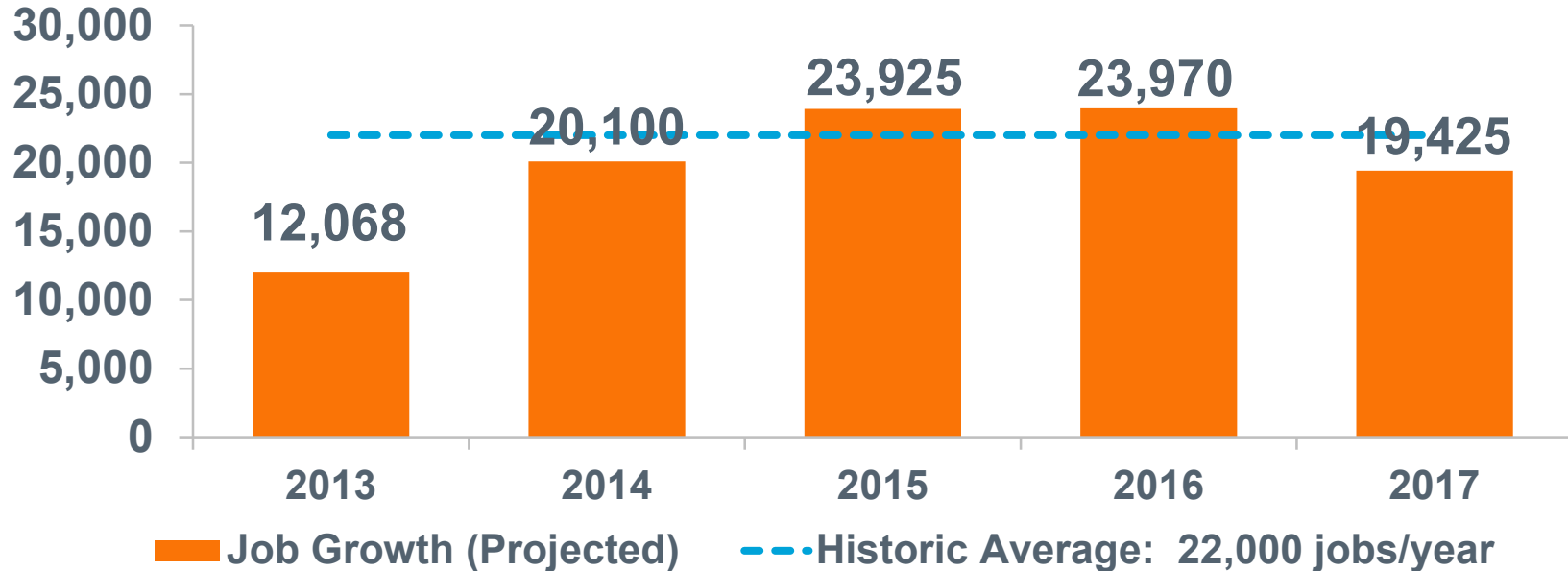
Cassidy  
Turley



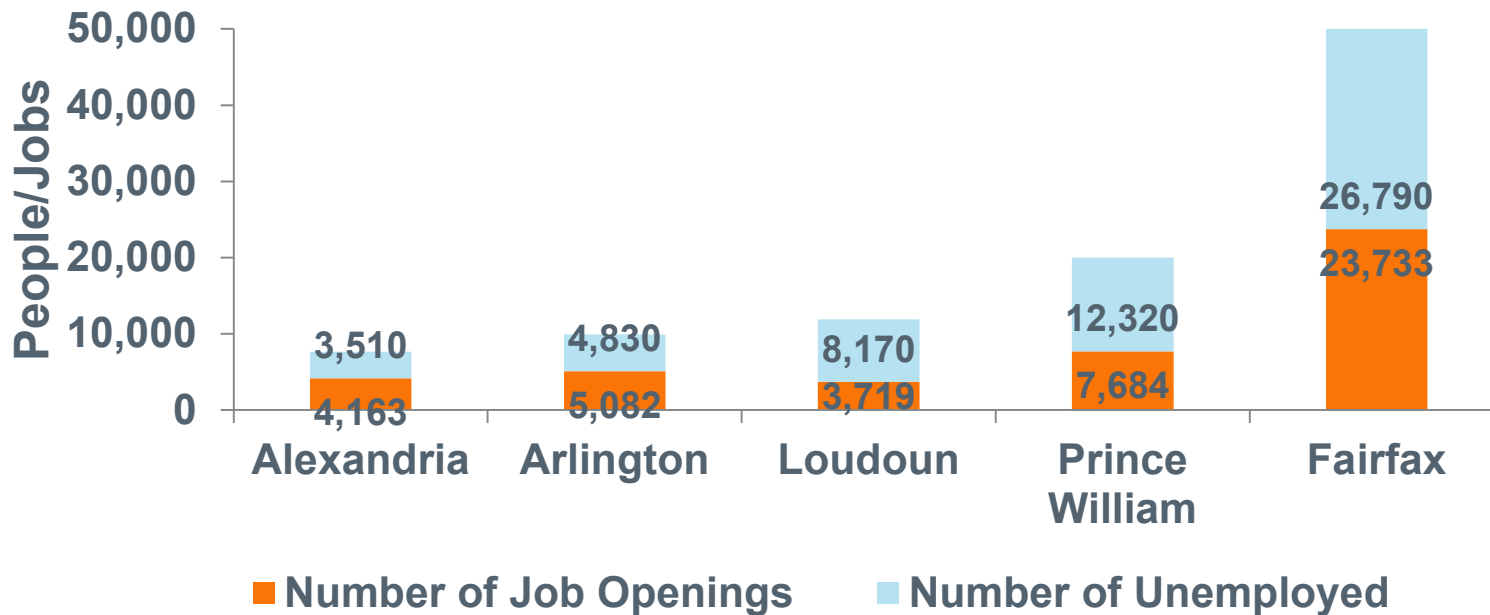
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# Job Growth Forecast

## Northern Virginia Annual Job Growth

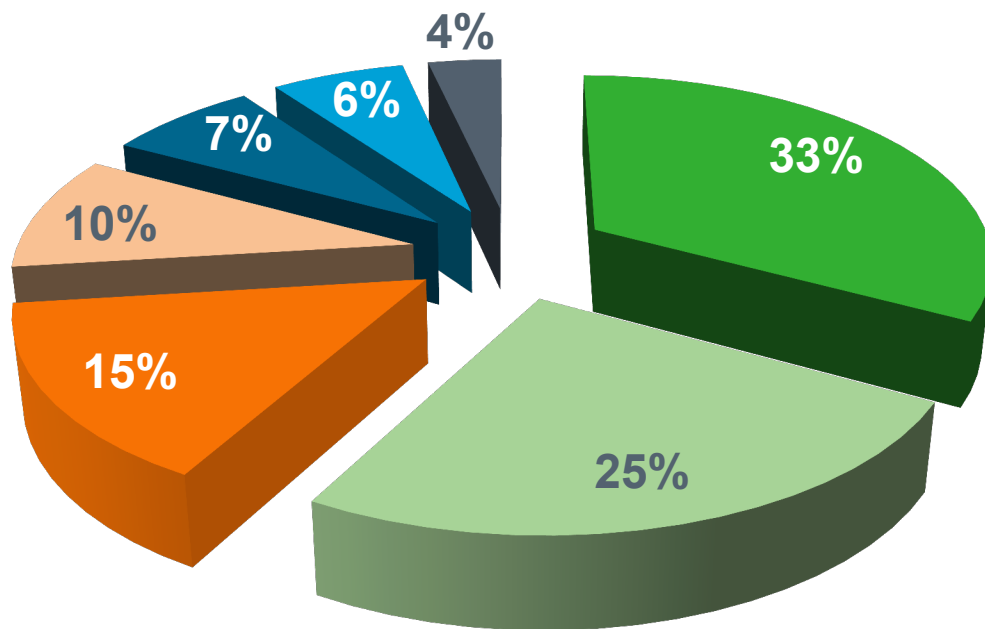


# Jobs Per Unemployed





# Look Who's Hiring



■ Retail/Hotel/Auto ■ IT/Engineering/Contracting ■ Education ■ Non-Profit ■ Other ■ Healthcare ■ Financial Services

Source: Washington Post

# What the Tenant Brokers Say...

- Attraction and retention of talent is a key concern for tenants
- The interior of the space is more important than the building itself
- Tenants are willing to pay more for light and air
- Accessibility (ingress & egress) to the site is a factor in the 'burbs
- Speed to lease execution is a big plus
- Keeping employees at the work site longer is key – Check the box on
  - Fitness facility on site or nearby
  - Onsite Deli
  - Breakout Rooms
  - Install beer taps onsite