



# 2019 Northern Virginia Market **Forecast**

**NAIOP**  
COMMERCIAL REAL ESTATE  
DEVELOPMENT ASSOCIATION



Intelligent  
Real Estate  
Solutions

**Dave Millard**  
February 7<sup>th</sup>, 2019



# 2018 Highlights

**Amazon HQ2 at National Landing**

**Virginia Tech Innovation Campus**

**The Boro in Tysons**

**Capital One Building Opens in Tysons**

**Boston Properties' Preleases in RTC**

**Repositioning Continues**

**Opportunity Zones**





# Amazon HQ2 at National Landing

- 25,000 Amazon jobs over 10 years
- 1.5 Multiplier
- Pentagon City, Crystal City and Potomac Yard
- Positive impact on neighboring submarkets
- Infrastructure improvements





# Virginia Tech Innovation Campus

- \$1B project
- **Graduate Ed:** Computer Science, Software Engineering, Machine Learning, Artificial Intelligence
- **Funding Contributions:** \$250M by Commonwealth + \$250M by Virginia Tech
- **Phase One - 1 msf campus at Oakville:**
  - 300,000 sf of Academic space
  - 250,000 sf of “Innovation Partner” space
  - 300,000 sf of Residential
  - 50,000 sf of Retail
- **Phase Two - 500,000 sf**





# The Boro In Tysons

- Instant Mixed Use
- Demand Magnet
- The Boro “Effect”
- Next Phase



**BORO DISTRICT**





# The Boro

## OFFICE

**TEGNA**



46,000 sf

86,000 sf

168,000 sf

45,000 sf

## RESIDENTIAL

VERSE



140 Units

404 Units

135 Units

## RETAIL



**NORTH**  
ITALIA



**FLOWER CHILD**  
HEALTHY FOOD FOR A HAPPY WORLD





**Boro Tower // Office**  
**438,169 SF**  
Delivered 3Q18

**Verse // Condo**  
**140 Units // 25 Stories**  
Delivers 4Q2019

**Bolden // Apartments**  
**135 Units // 15 Stories**  
Delivers 3Q2019

**Showplace ICON Theater**  
**15 Screens**  
Delivers 2Q2019

**Whole Foods Market**  
**70,000 SF**  
Delivers 2Q2019

SOLUTIONS DRIVE

GREENSBORO DRIVE



**The Rise // Apartments**  
**404 Units // 30 Stories**

Delivers 3Q2019

**Boro Tower // Office**

**438,169 SF**

Delivered

**Bolden // Apartments**  
**135 Units // 15 Stories**

Delivers 3Q2019

**Showplace ICON Theater**

**15 Screens**

Delivers 2Q2019

**Whole Foods Market**

**70,000 SF**

Delivers 2Q2019

**The Loft // Office**

**75,000 SF // 3 Stories**

Delivered 4Q18

WESTPARK DRIVE

PARK AVENUE



# Capital One HQ in Tysons

- 975,000 sf, 470 feet (31 floors), +/- 3,000 employees
- 43 Month Construction Process
- Architect: Bonstra Haresign, HKS, Callison RTKL
- Contractor: Davis Construction
- Special Features:
  - Conference center
  - Fitness center (including indoor basketball)
  - Kitchen / cafeteria
  - Elevated green roof terraces
  - Recruiting suite
  - Ground floor retail





# Boston Properties Preleases in RTC

- 850,000 sf
- Delivering 2Q 2022
- Architect: Duda Paine Architects
- Contractor: Clark Construction
- Special Features:
  - Two Towers, 28 + 20 stories
  - Directly across from future RTC metro (2020)
  - Phase 1 to include a 200-key hotel and a 500-unit residential
  - Pedestrian bridge to RTC



Fannie Mae

*Duda Paine Architects*





# Boston Properties Preleases in RTC

- 276,000 sf
- Delivering 2Q 2020
- Architect: Shalom Baranes Associates
- Contractor: HITT Contracting
- Special Features:
  - 17-story office building
  - Last commercial office building in RTC urban core
  - New corporate headquarters for Leidos





# Repositioning **Continues**

**64%**

of Northern Virginia  
Buildings Are Over 25  
Years Old

## **CHALLENGES**

- **Metro Access**
- **Façade**
- **Floorplate**
- **Ceiling Height**
- **Column Spacing**
- **Building Codes**

## **EXAMPLES**

- **Park Center Alexandria** – Lowe Enterprises
- **Mark Center** – Alexandria Public Schools
- **Crowne Plaza** – Carr Properties
- **Former Hoffman Building** – Perseus – TDC
- **American Physical Therapy Association (APTA)**
- **NCMEC Office to Hotel** – CAS Riegler



# Park Center Alexandria

- Purchased by Lowe from Northwestern Mutual for \$39.4M
- 566,000 sf (3 buildings)
  - 4300 King Street will remain office; Park Center and Ford Buildings will be converted to 425 residential units
- **Architect:** Bonstra Haresign Architects
- **Contractor:** TBD
- **Construction Start:** 4Q 2019
- **Completion:** 2Q 2021
- **Total Investment:** \$159M

BEFORE



AFTER







# Ferdinand T. Day **Elementary** School

- Purchased for \$15M
- Former Site of American Diabetes Association
- 120,000 sf, 650 students
  - 4 floors for K-5 school
  - 2 floors of office space (separated)
- Architect: Bonstra Haresign Architects
- Design / Construction Cost: \$22M
- Key Features
  - 13,000 sf outdoor play space on roof of adjacent parking garage
  - Skywalk to rooftop play area
  - Exterior elevator for office
  - 27 classrooms



Ferdinand T. Day





# Crowne Plaza Conversion

- Carr Properties
- 901 North Fairfax Street - Old Town
- 138 Condominium Units + 41 Townhomes
- Metro Stage: 7,300 sf, 115 seats
- Architect: Lessard Design
- Timing: 4Q 2020

**BEFORE**  
254 rooms



**AFTER**



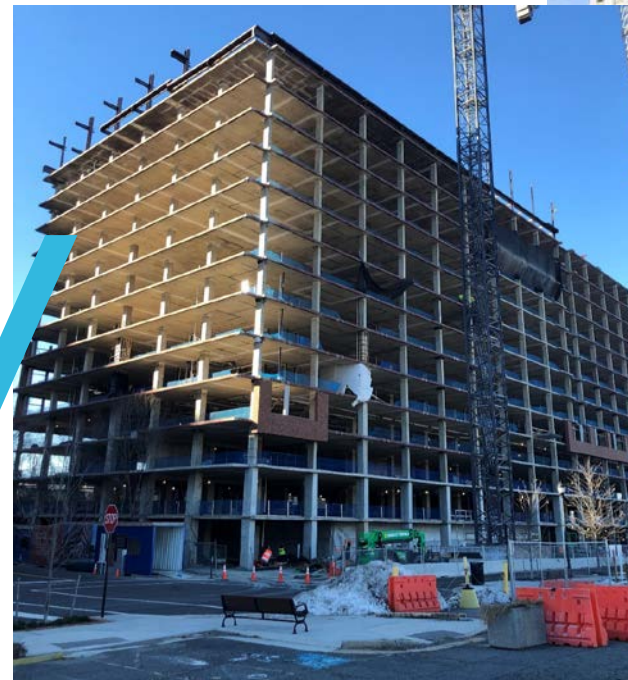
Carr Properties



# Hoffman Office Building

- **Developer:** Perseus TDC
- **Floor 1:** Lobby, co-working, concierge
- **Floors 2 - 4:** Converted to parking
- **Floor 5:** Residential Begins (Studio + 1-2 Bedroom)
- **Floors 14 - 16:** New Steel Construction
- **Amenities:** Fitness, lounge, rooftop terrace with pool deck, workshop, and music room
- **Architect:** Cooper Carry
- **Contractor:** Balfour Beatty

**BEFORE**  
660,000 sf



**AFTER**  
520 units



# American Physical Therapy Association (APTA)



- **TransPotomac Plaza**
- **3 Buildings**
- **120,000 sf**
- **For Sale**
- **Likely Residential Conversion**



- **New Headquarters**
- **115,000 sf, 7 floors**
- **3030 Potomac Avenue**
- **Architect: Gensler**
- **Contractor: Davis Construction**





# Office to **Hotel** Conversion (CAS Riegler)

- 699 Prince Street, Old Town
- Former NCMEC Office HQ
- 66,000 sf, 2 Phases
- **Operator:** Aparium Hotel Group
- **Architect:** Antunovich Associates
- **Timing:** 2021

ORIGINAL HOTEL



BEFORE

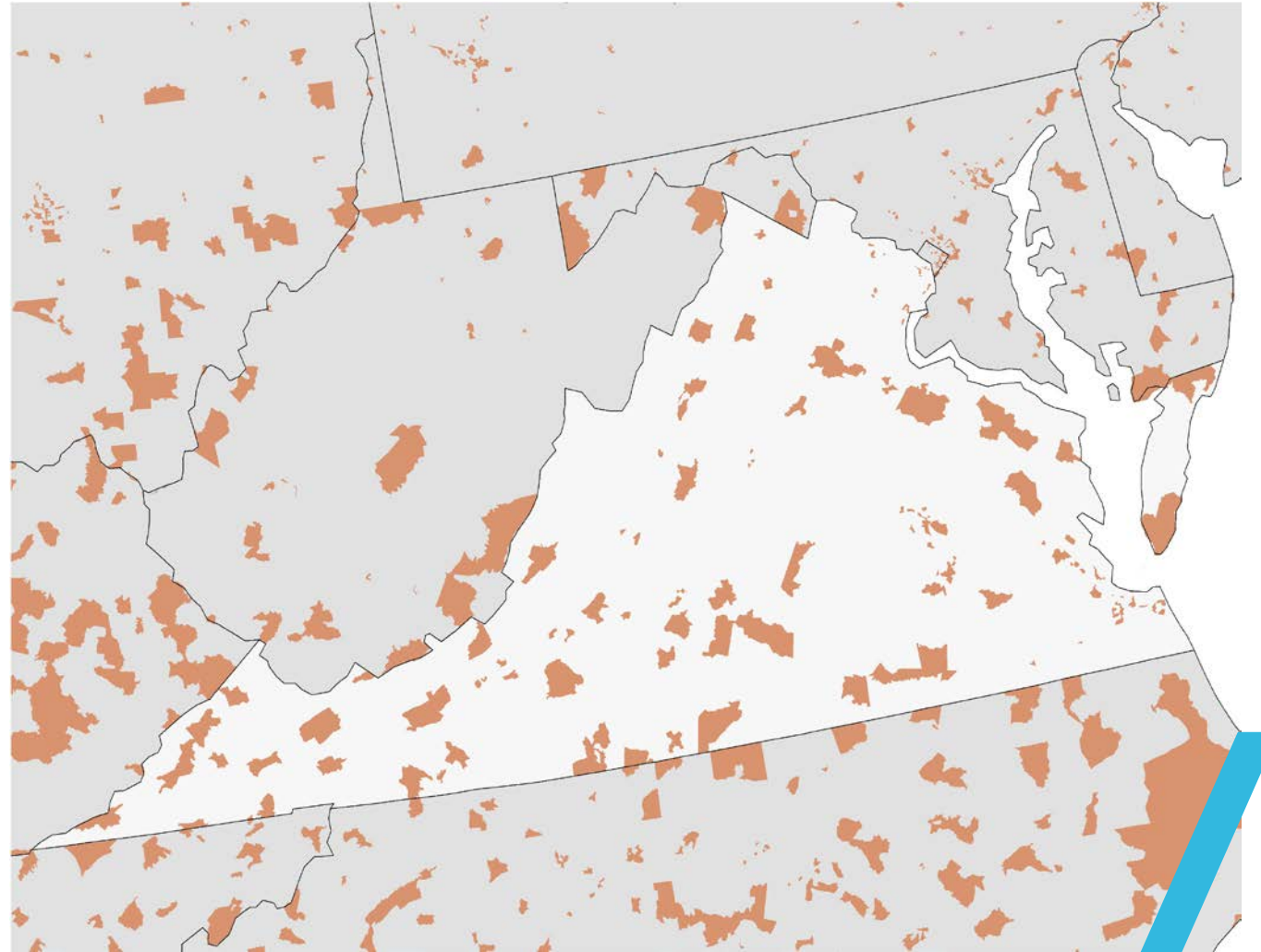


**AFTER**  
135 rooms



# Opportunity Zones

- As of 2018, federal tax code allows deferral of capital gain taxes if capital is reinvested into underserved areas
- 7,800 Zones Nationwide
- 212 Zones in Virginia
- Impact on NoVA Finance and Investment TBD



**VIRGINIA OPPORTUNITY ZONES**



# Market Overview







# D.C. Metro Office Market Year-End 2018



2017 DELIVERIES  
**3 MSF**

2018 DELIVERIES  
**7 MSF**

2019 DELIVERIES  
**6 MSF**

**380** MSF

OFFICE  
INVENTORY

**14%**

YEAR-END  
VACANCY

**3.8** MSF

NET  
ABSORPTION

**10** MSF

UNDER  
CONSTRUCTION

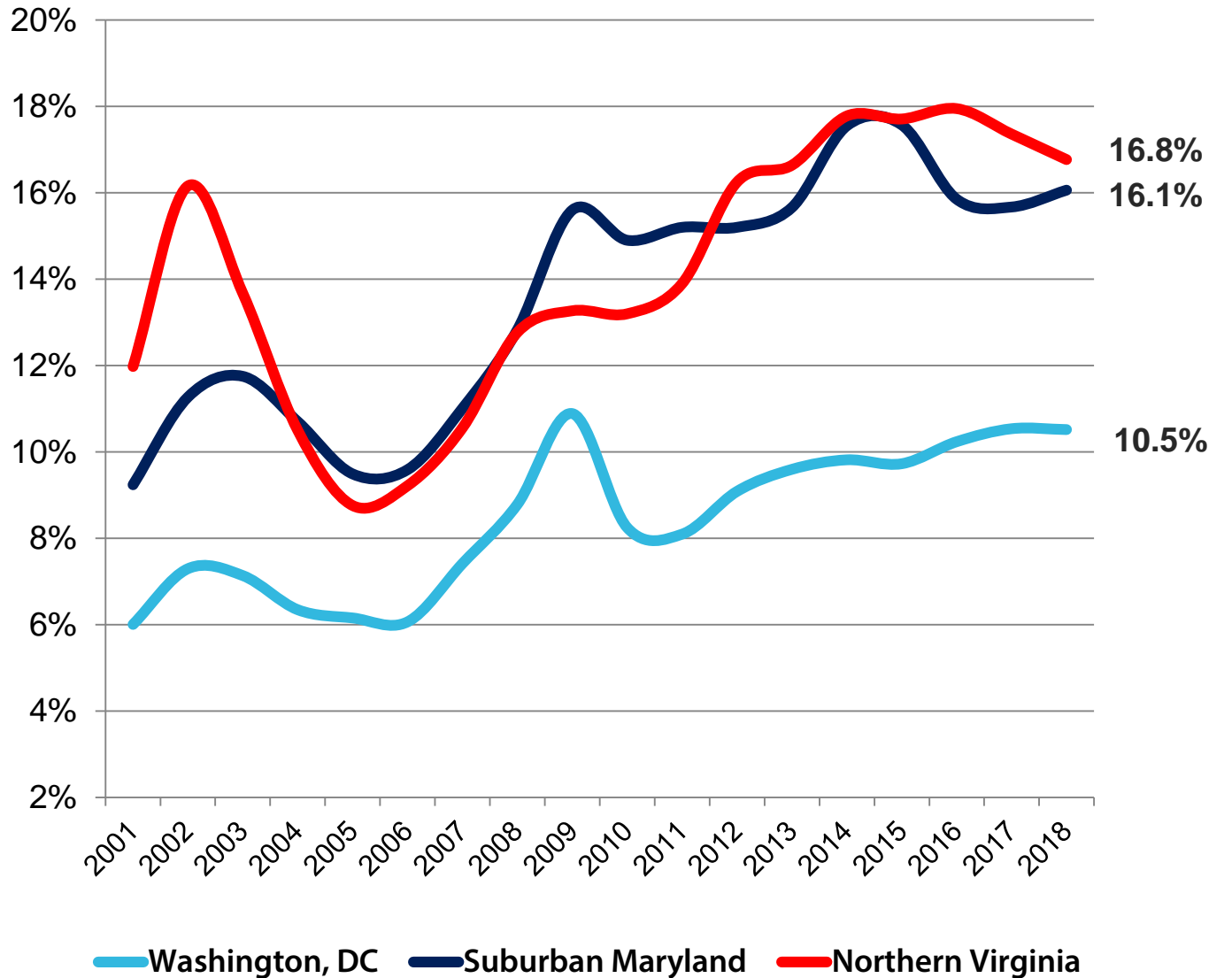
# Year-End 2018 Snapshot

	Northern Virginia	Washington, D.C.	Suburban MD
Inventory	166 msf	137 msf	78 msf
Average Asking Rent	\$33.24	\$54.78	\$27.31
Overall Vacancy Rate	16.8%	10.5%	16.1%
Sublet Vacancy Rate	0.8%	0.8%	0.6%
Annual Absorption	2.6 msf	1.8 msf	-0.6 msf
SF Delivered	2.3 msf	3.3 msf	1.5 msf
SF Under Const / Reno	2.1 msf	5.4 msf	2.5 msf



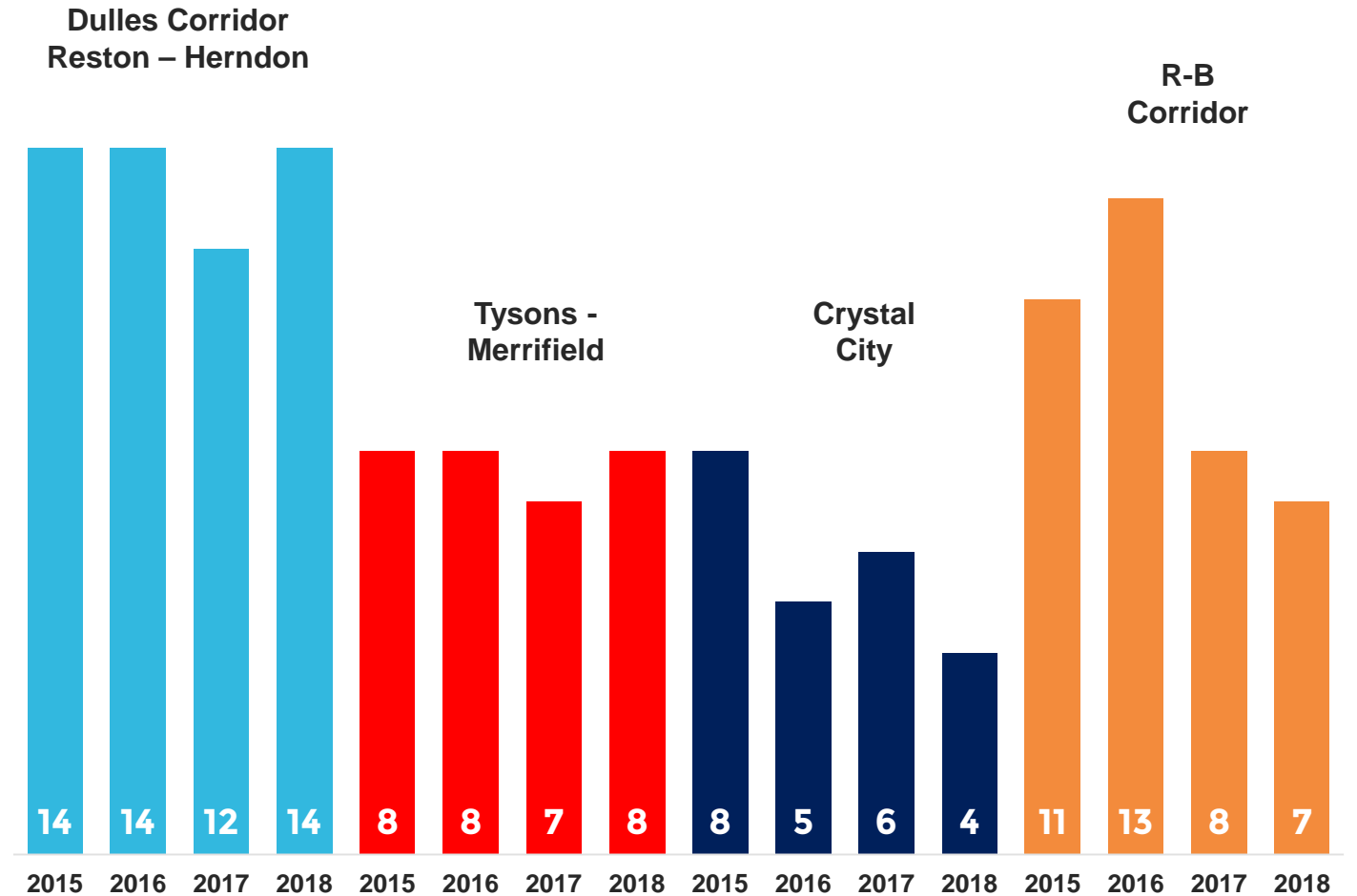


# D.C. Metro Office Vacancy Comparison



# Contiguous Blocks of **100K+** Available Office Space

2015 - 2018

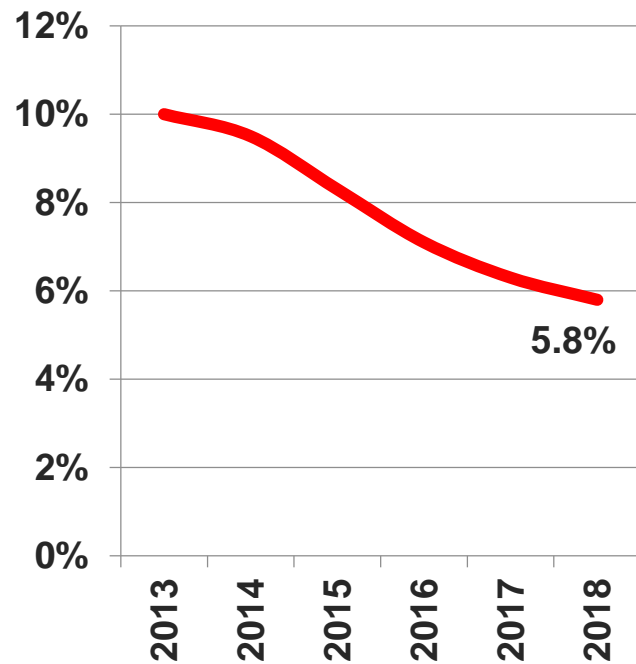




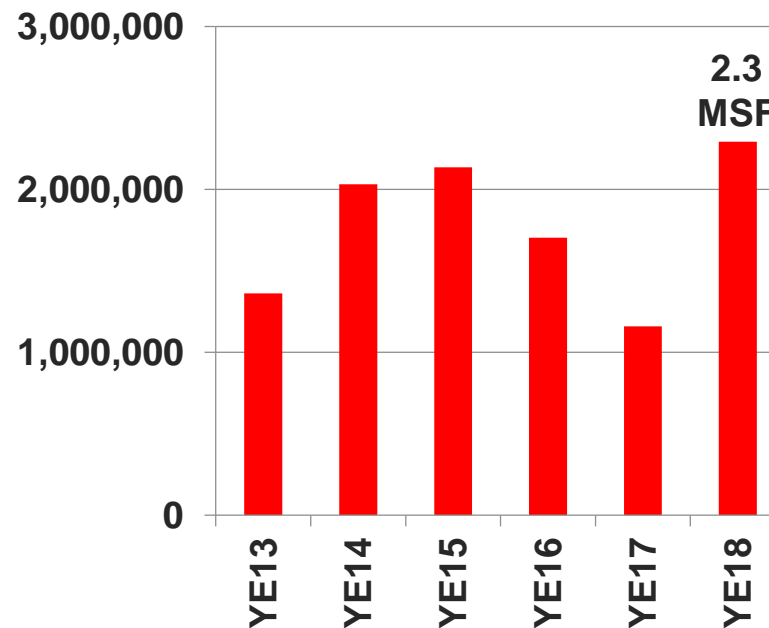


# Northern VA Industrial Summary

### HISTORICAL VACANCY



### HISTORICAL NET ABSORPTION



## YE 2018 Market Indicators



INVENTORY  
**95 MSF**



PIPELINE  
**4.0 MSF**



VACANCY  
**5.8%**



ABSORPTION  
**2.3 MSF**



# Expansion of Data Centers

- 260 mW Absorption in 2018
- 5 of 10 Cloud Campuses are in NOVA
- 17 msf of Data Center Space Built / Under Construction to-date

## Loudoun County

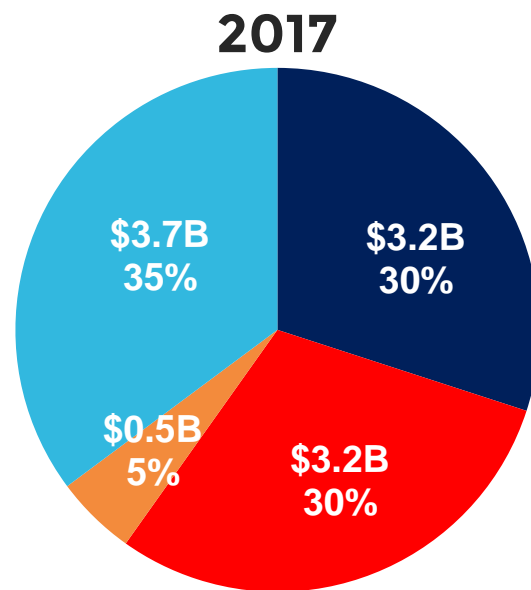
- 7 msf of Data Center space permitted
- Vacancy rate of 6%
- Land values: \$1.2M-\$1.8M per acre
- Receives \$250M in local tax revenue annually



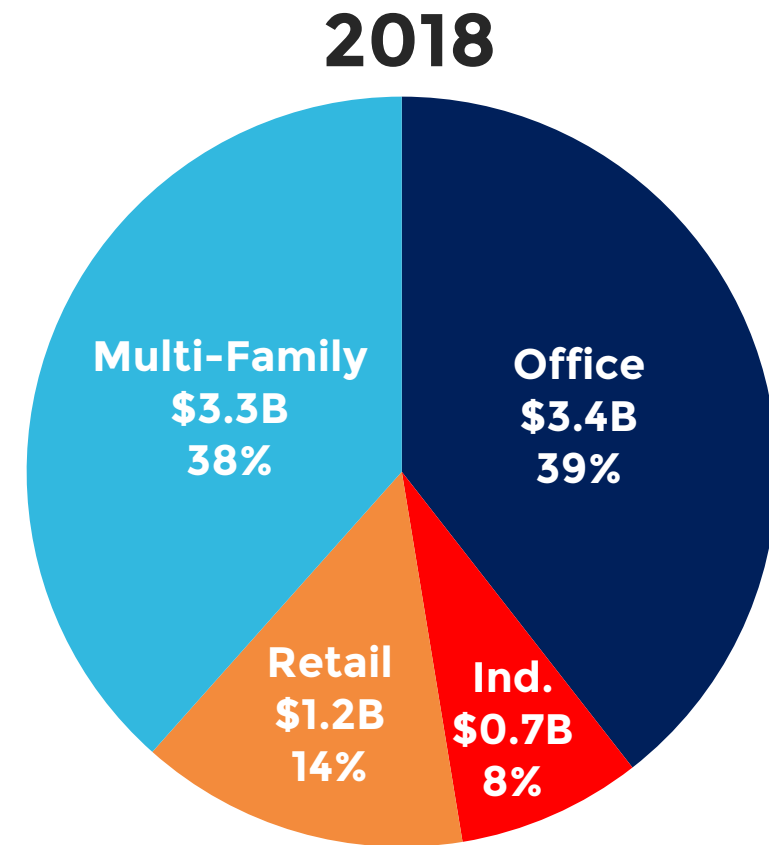


# Northern VA Sales Volume By Property Type

- OFFICE
- INDUSTRIAL
- MULTI-FAMILY
- RETAIL



Total NOVA Volume: \$10.6B



Total NOVA Volume: \$8.2B



# Top Northern VA Investment Sales by Price

Property	Type / Market	Seller	Buyer	Price	\$ PSF	Cap Rate
<b>Greensboro Station</b> 1701 SAIC Drive 633,175 sf	Office Fairfax	The Meridian Group	Metlife RE Investors, Mubadala Investment	<b>\$257M</b>	\$406	4.75%
<b>Arlington Tower</b> 1300 17 <sup>th</sup> Street North 398,000 sf	Office Arlington	Tishman Speyer	WashREIT	<b>\$250M</b>	\$629	5.0% Going in 6.4% Stabilized
<b>Digital Realty Data Center Site</b> 24086 Bears School Road 424 AC	Dev Site Loudoun/ Manassas	Metropolitan Washington Airports Authority	Digital Realty	<b>\$237M</b>	\$559,962/AC	
<b>One Dulles Tower</b> 13200 Woodland Park Road 403,622 sf	Office Herndon	Federal Capital	Harbor Group Int'l	<b>\$226M</b>	\$560	5.25%
<b>Dulles Greene</b> 2150 Astoria Circle 806 Units	Multi-Family Fairfax	Toll Brothers	Harbor Group Int'l	<b>\$193M</b>	\$239,454 /unit	5.30%
<b>Key Bridge Marriott</b> 1401 Lee Highway 546,107 sf	Hotel Arlington	Host Hostels & Resorts	Oaktree, Woodridge Capital	<b>\$186M</b>	\$319,039/unit	5.2%
<b>Village at Leesburg</b> 1600 Village Market Boulevard SE 546,107 sf	Retail Loudoun/ Manassas	Cypress Equities	Rappaport Co.	<b>\$175M</b>	\$320	6.0%
<b>Westin Alexandria</b> 400 Courthouse Square 319 Units	Hotel Alexandria	Massachusetts Mutual Life Ins	Junson Capital	<b>\$77M</b>	\$318,471 /unit	



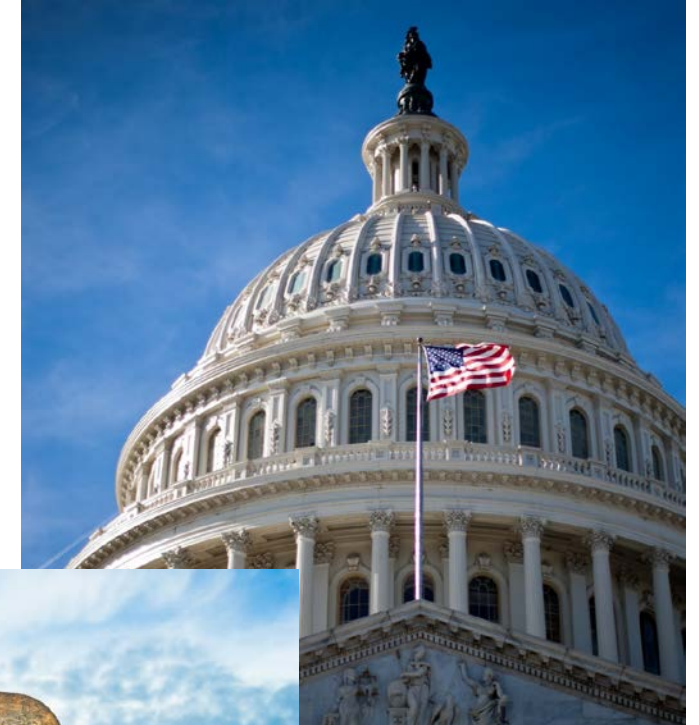


# Northern VA Largest Office Leases of 2018

Tenant	Submarket	Lease Type	SF
Fannie Mae	Reston	Prelease	850,000
★ U.S. Customs and Border Protection	Route 28 Corridor North	Relocation	445,000
Leidos	Reston	Prelease	276,000
MicroStrategy	Tysons	Early Renewal	213,000
★ Appian Corporation	Tysons	Relocation	200,000
United States Patent and Trademark Office (USPTO)	I-395 (Arlington)	Renewal	191,000
General Dynamics	Fairfax Center	Renewal	184,000
★ KPMG	Tysons	Relocation	168,000
BAE Systems, Inc.	Merrifield	Relocation	133,000
United States Postal Service (USPS)	Rosslyn	Renewal	116,000
Integrity Applications Incorporated (IAI)	Route 28 Corridor South	Expansion / Extension	104,000
★ Air Line Pilots Association, International (ALPA)	Tysons	Relocation	104,000
E*Trade	Ballston	Renewal	100,000
Deltek	Herndon	Renewal / Downsize	93,000
IBM	Herndon	Renewal	93,000
Cambridge Associates LLC	Ballston	Renewal	90,000
Conservation International	Crystal City	Renewal/Downsize	89,000
★ American Institutes for Research	Crystal City	Relocation	88,000

# Government Contracting Environment

- **NoVA:** Contract support for routine functions
- **Full DoD budget approved**
- **Strong growth :** Cyber, Artificial Intelligence
- **Effects of shutdown:**
  - Uncertainty in workforce
  - Safety at large firms
  - Entrepreneurial spirit
- **Competing with Amazon for talent**

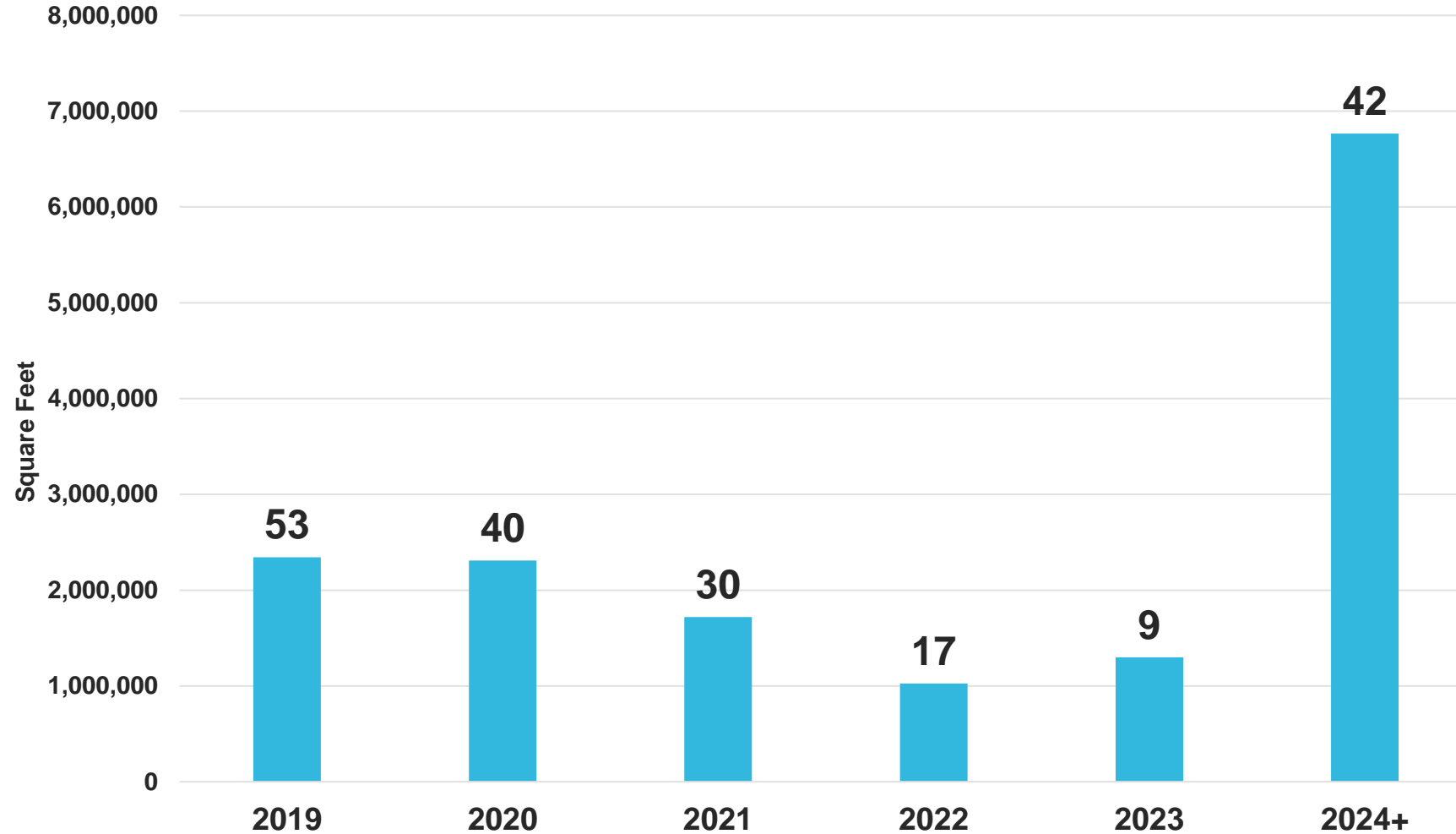






# GSA NoVA Lease Expirations

GSA Leases, Square Feet and Expiration Dates





# Trends & Takeaways





# Millennials & the Built Environment

- Mobile Work Force
- Transit-Oriented + Amenity Rich
- Less Personal Space
- More Shared Space
- Collaborative? Crowded?
- Hospitality + Convenience





“Can different co-working groups differentiate enough to create a sustainable competitive advantage?”

- NoVA Developer

# The Co-Working Evolution

- Fastest-Growing Demand Segment
- Enterprise Leasing
- Acceptance by Landlords
- Owner Partnerships



Industrious



wework



Spaces





# Multi-Modal Transportation

- Dockless Scooters
  - Pilot Programs
  - Safety + Liability Concerns :  
Rider Inexperience & Pathways
- Ride Hailing + Autonomous Vehicles
- Impact on Parking Design



Uber





*“Focus is on attracting and retaining employees versus rental rates”*

*- Harmar Thompson*

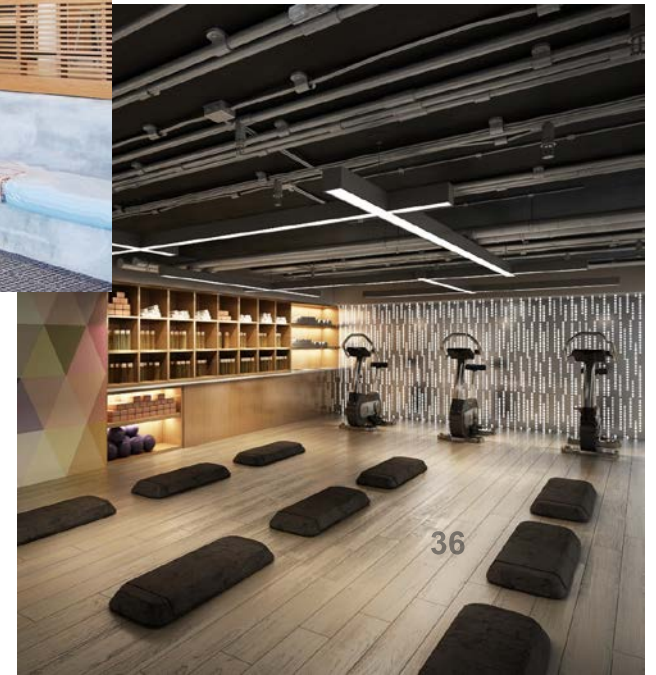
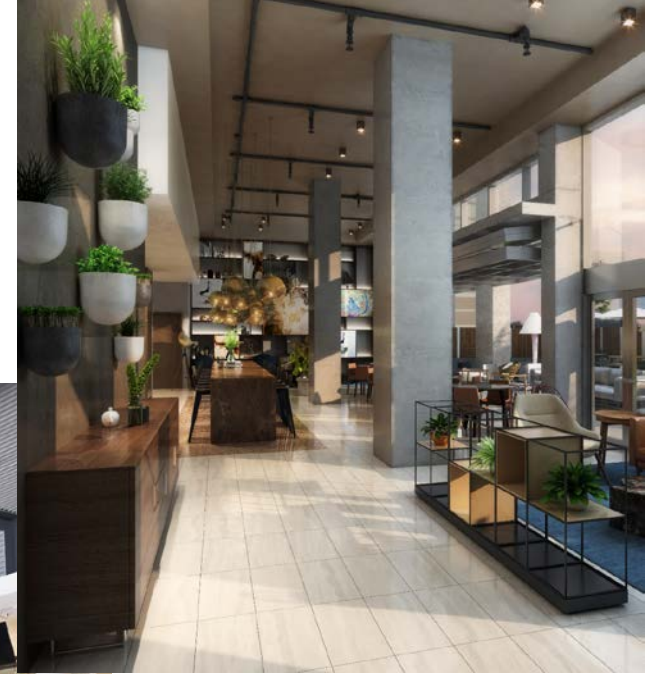
# Amenities Arms Race

- **Upgrades**

- Hospitality Experience
- Coffee Bars
- Library Area with Lounge Seating
- Gas Fireplace or Outdoor Fire Pit
- Rooftop / Terrace Deck
- Next big thing?

- **Must Haves**

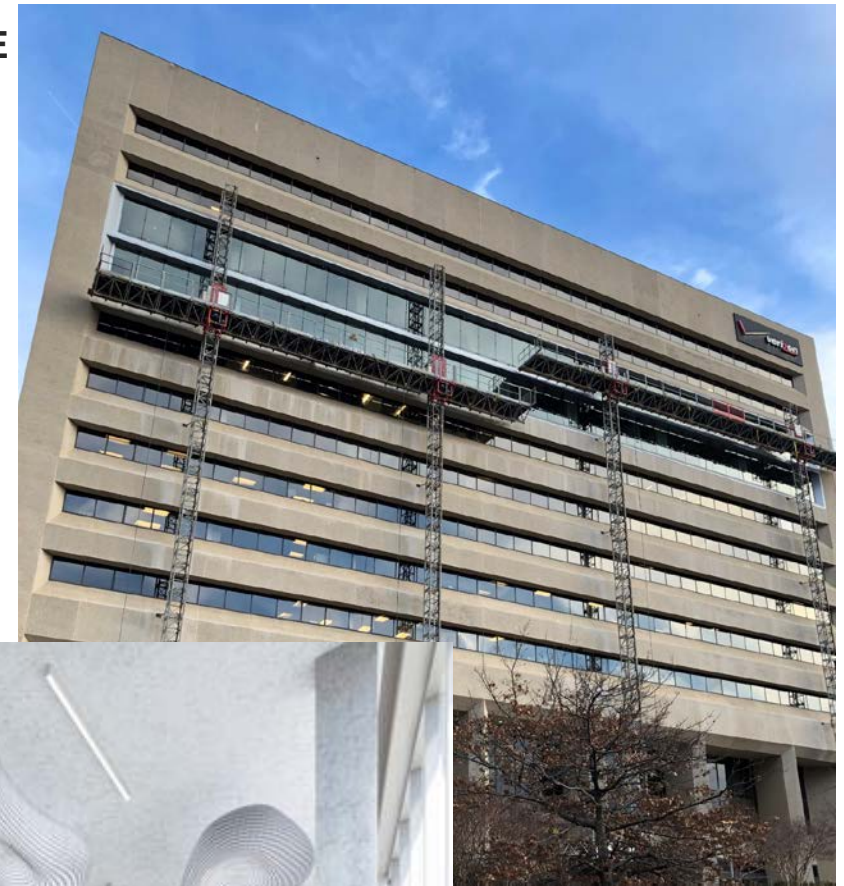
- Workout Facilities with Towel Service
- Conference Facilities / Wifi
- Flat Screens for News + Commuter Info
- Flexible Food: Healthy Market, Fooda





# Evolution of Spec Suites

- Speed to Market
- Model Home
- Shared Lounge with Coffee Bar
- Trending Larger
- More widely accepted
- Town Hall Concept

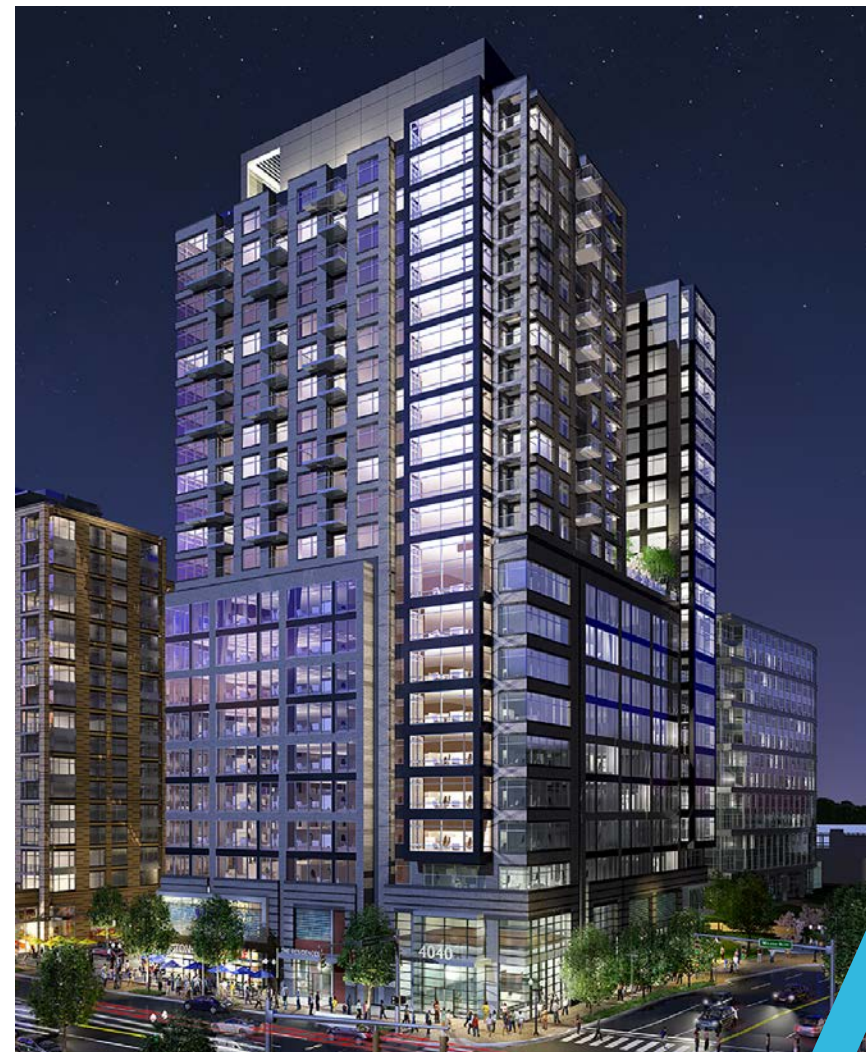


TOWN HALL



# Vertical Mixed-Use

- **4040 Wilson Boulevard**
- **Developer:** Shooshan / Brandywine
- **Architect:** Callison RTKL
- **Contractor:** Clark Construction
- **Features**
  - First vertically mixed-use building
  - Office – 190,000 sf (Floors 3-10)
  - Residential – 250 units (Floors 11-22)
  - Retail – 3 floors
  - Penthouse shared amenity deck
  - Tallest building in Ballston
- **Tenants:** Avalon Bay, The Salt Line, Vida Fitness







# HITT Co|Lab

*Dedicated to the Research and Testing of Emerging Materials, Approaches and Technology Transforming the Construction Industry.*



- One of the First Cross Laminated Timber (CLT) Structures
- Net Zero Energy – LEED v4 Gold – ILFI Petal
- Exterior Computerized Green Wall
- Reclaimed Millwork – Onsite Trees



William McDonough + Partners

SIMPSON GUMPERTZ & HEGER





# Growing Presence of Higher Education

- Virginia Tech Innovation Center
- University of Virginia
  - Darden in Rosslyn
  - Medical in Merrifield
- George Mason University
  - Expansion of Virginia Square campus
- Susquehanna University in Merrifield
- NOVA Community College
  - Expanding course offerings



*“Partnerships between business and education create a high quality talent pipeline for the company and a branding opportunity for both”*

*- Margarita Foster*







# Senior Living Increasingly a Part of Mixed Use

## Silverstone Senior Living - Alexandria

- 186 Units – Assisted living / memory care
- 146 Units – Independent living

## The Mather in Tysons

- 300 apartment homes
- \$400M project
- 2023 opening (anticipated)

SILVERSTONE



THE MATHER



# Hospitality

- **30 New hotels** are planned or under construction in NoVA
- **Opportunities:** Strong local economy, demographics, transient travel
- **Challenges:** Increasing land and construction cost, slight reduction in per diem rates
- **Trends:** Upscale mid-market, extended stay and micro hotels
- **Late Breaking:** WhyHotel in Ballston



**ARCHER HOTEL IN SCOTTS RUN TYSONS**  
178 rooms

*“Hotels are embracing authenticity, curation and personalization to attract guests”*

*- Gensler*





# What **Worries** YOU?

- **“Core Buyers Need to Demonstrate the Overall Strength of the Market”**
- **“Alexandria Metro Station Shutdown in the Summer of 2019”**
- **“Recession... we might be plunged into it”**
- **“Another government shutdown... the last one cost our region \$1.6B”**
- **“Affordable housing and student housing is the most pressing problem”**
- **“Low interest rate environment reflecting international weakness – not necessarily good news”**
- **“Oversupply in certain markets, especially Tysons residential”**
- **“Too much optimism on HQ2”**
- **“Data center users have driven up cost of land, forcing industrial users further west”**
- **“How will other firms compete for the same talent as Amazon?”**
- **“How will company-owned real estate (CapOne, Amazon) affect the spec market?”**



# Thank You!

*Jeff Barber  
Pat Barnhart  
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Craig Bernstein  
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Steve Daves  
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Bob Mannon  
Martha Marks  
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Kevin Shooshan  
Kelly Shooshan  
Whitney Smith  
Brenda Sosa  
Benita Stocks  
Spence Stouffer  
Jake Stroman  
Harmar Thompson  
Jeff Vandersall  
Cody Wilder  
Sindy Yeh*

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