



NAIOP / AUGUST 2023

2023 MID-YEAR MARKET FORECAST

WITH ELIZABETH NORTON

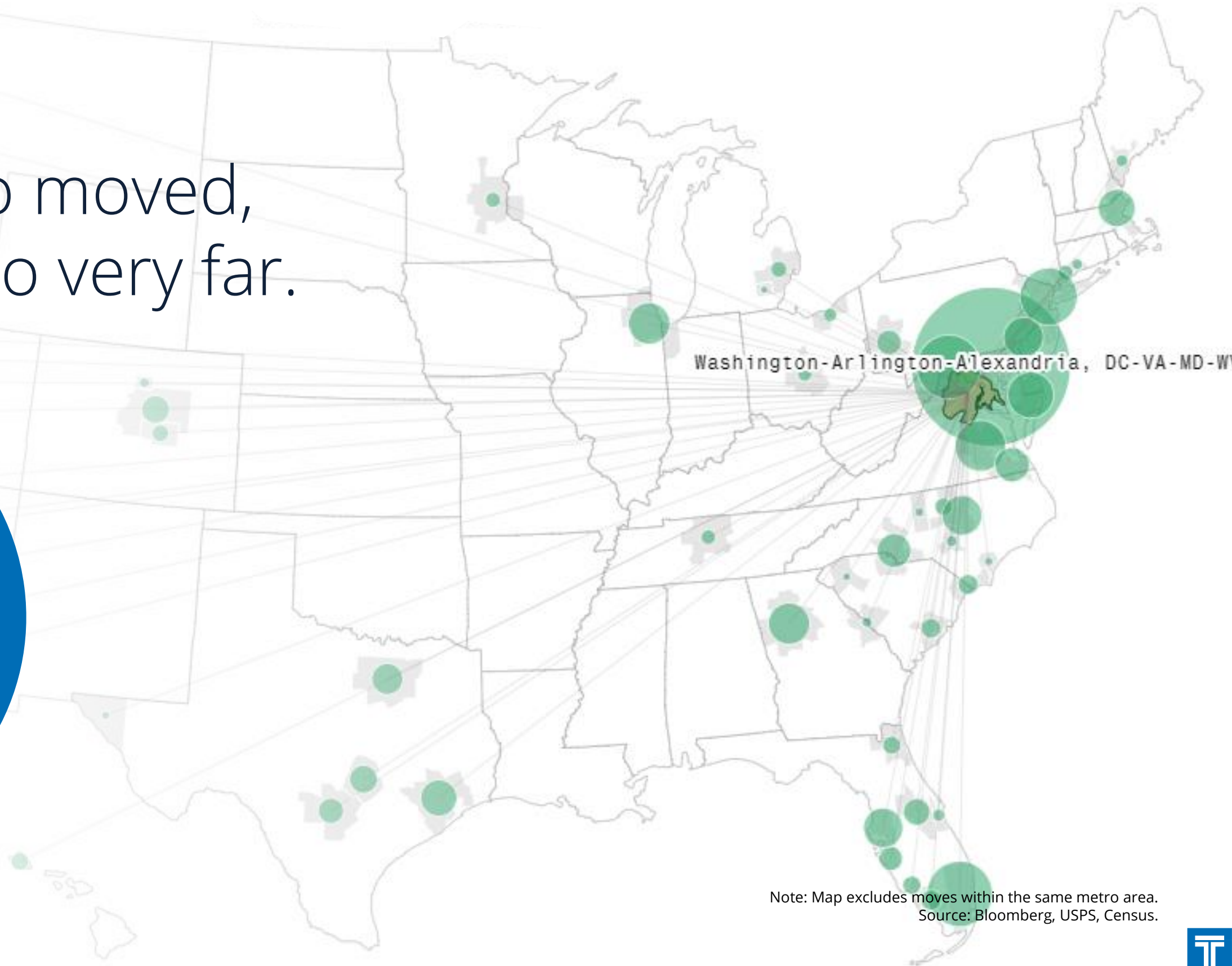
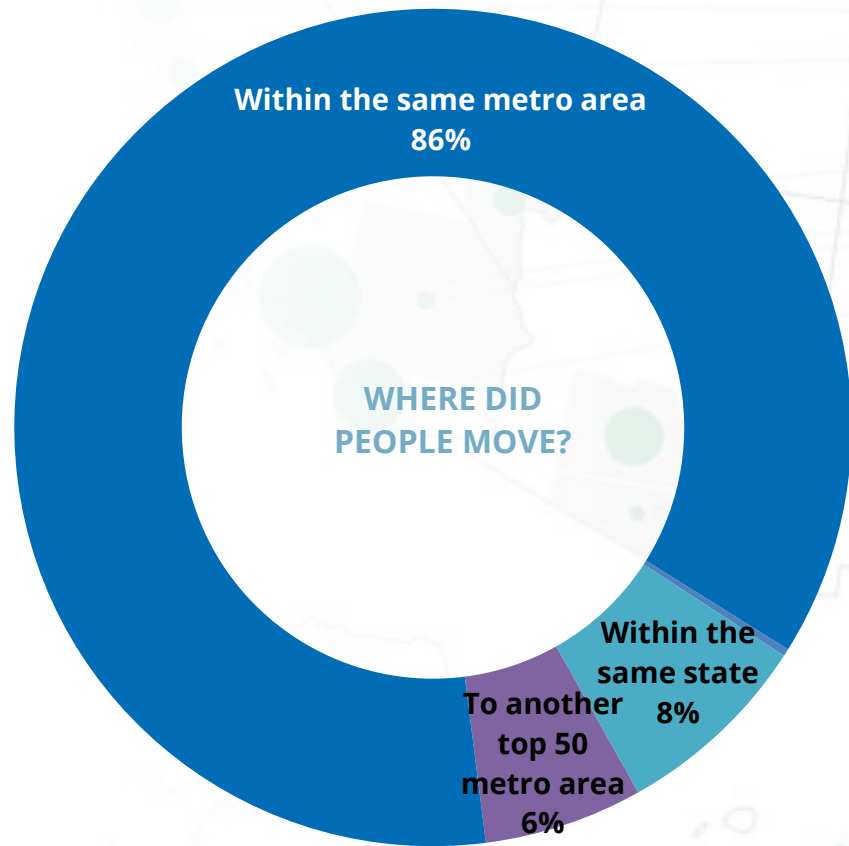


WHAT WE'RE SEEING

MIGRATION PATTERNS ARE SHIFTING, AGAIN

THE COVID EXODUS

Of those who moved, most didn't go very far.

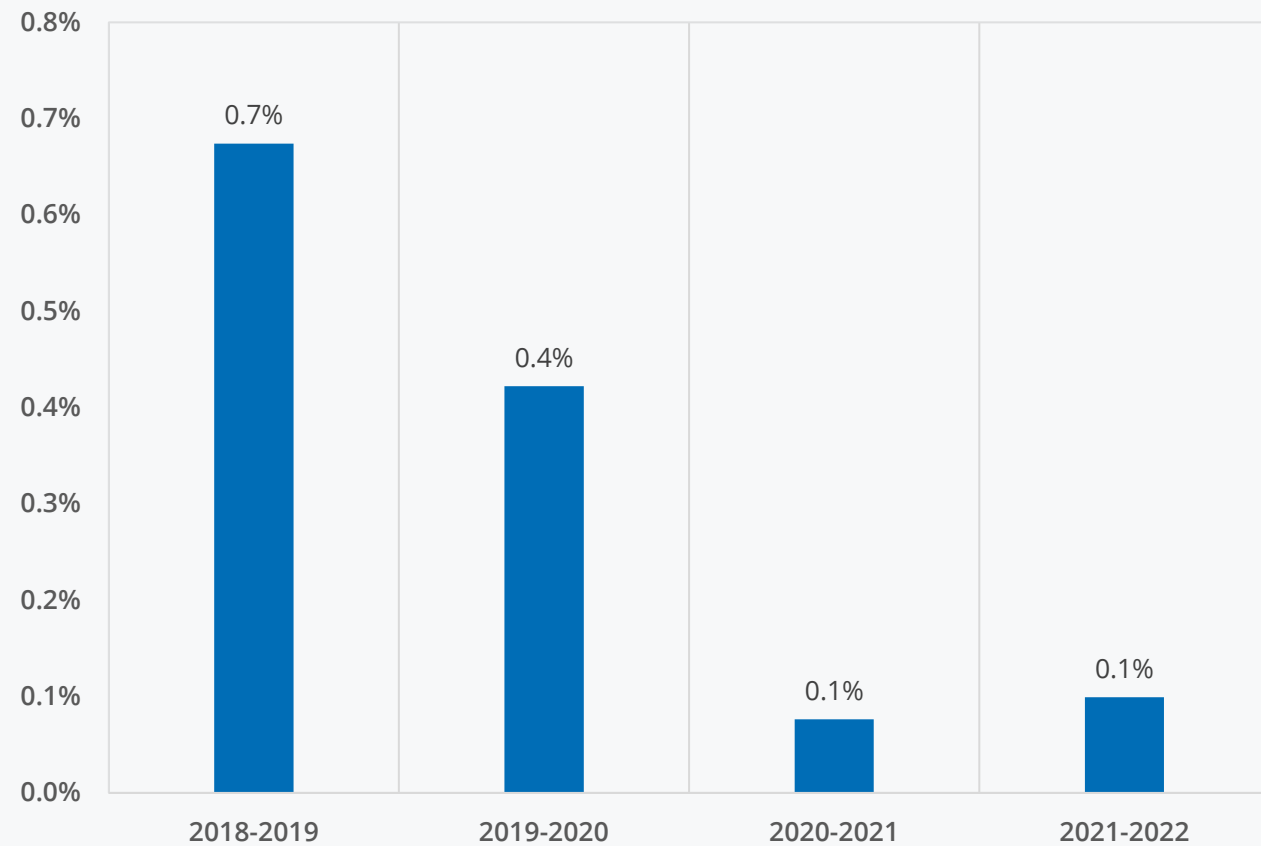


Note: Map excludes moves within the same metro area.
Source: Bloomberg, USPS, Census.

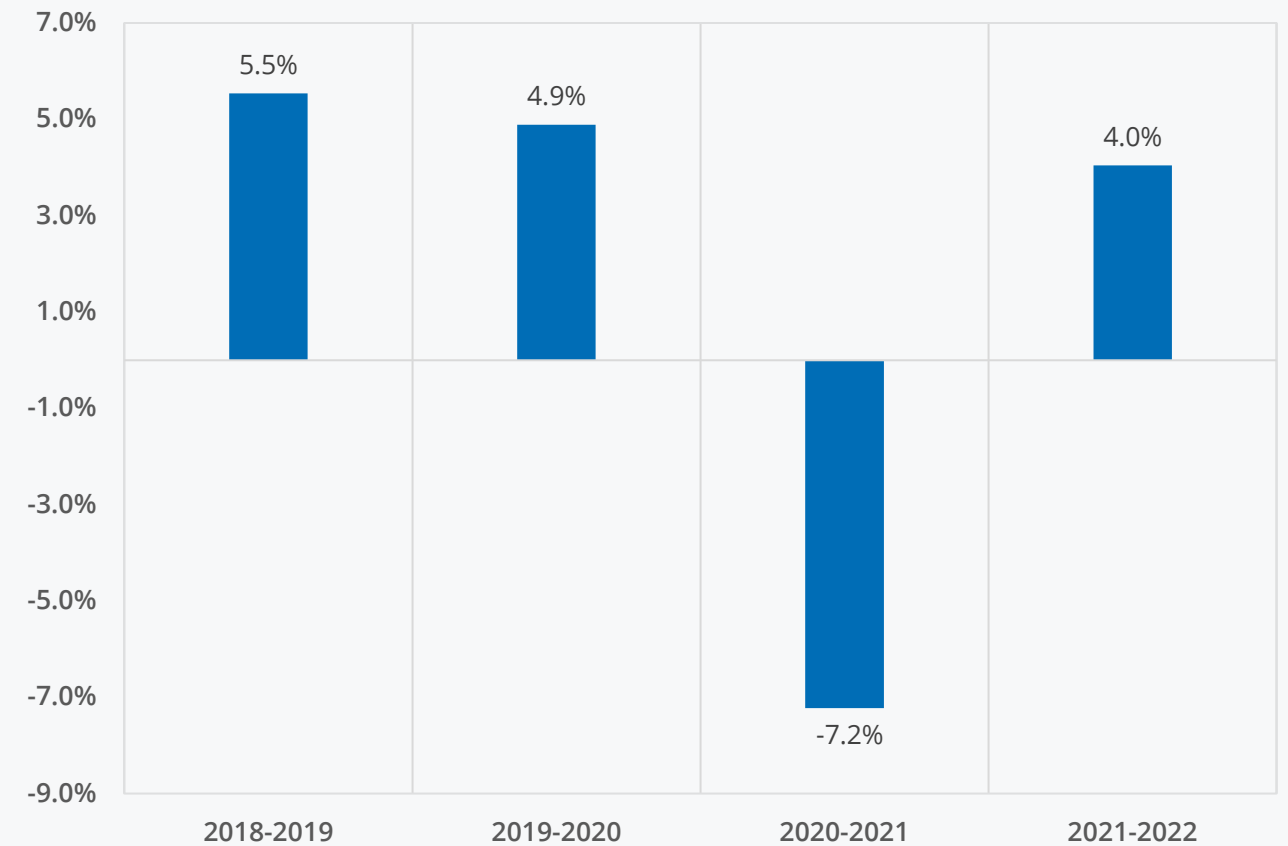
THE RETURN

District population turning around.

POPULATION GROWTH RATES | WASHINGTON SUBURBS



POPULATION GROWTH RATES | DISTRICT OF COLUMBIA



Source: Census, Brookings, Transwestern.

THE CHURN

Highly paid, young professionals are moving in, but they are also moving out.

ANNUAL NATIONAL MOVERS SURVEY | INBOUND POPULATION | 2022

67%

MAKE \$150,000 OR MORE
ANNUALLY

47%

RELOCATING BECAUSE
OF A JOB

52%

ARE AGED
18 TO 44

Source: United Van Lines.



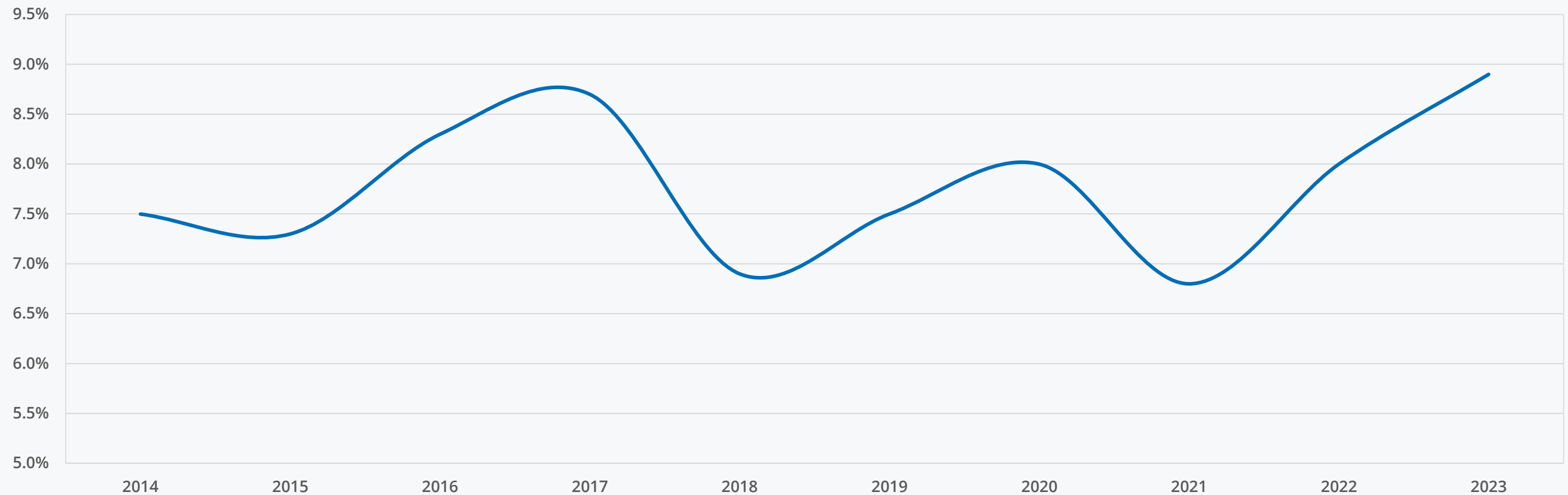
WHAT WE'RE SEEING

CORPORATIONS ARE MOVING TOO

CORPORATIONS ARE MOVING TOO

Corporate HQ relocations highest since 2017.

CORPORATE HQ RELOCATIONS | UNITED STATES

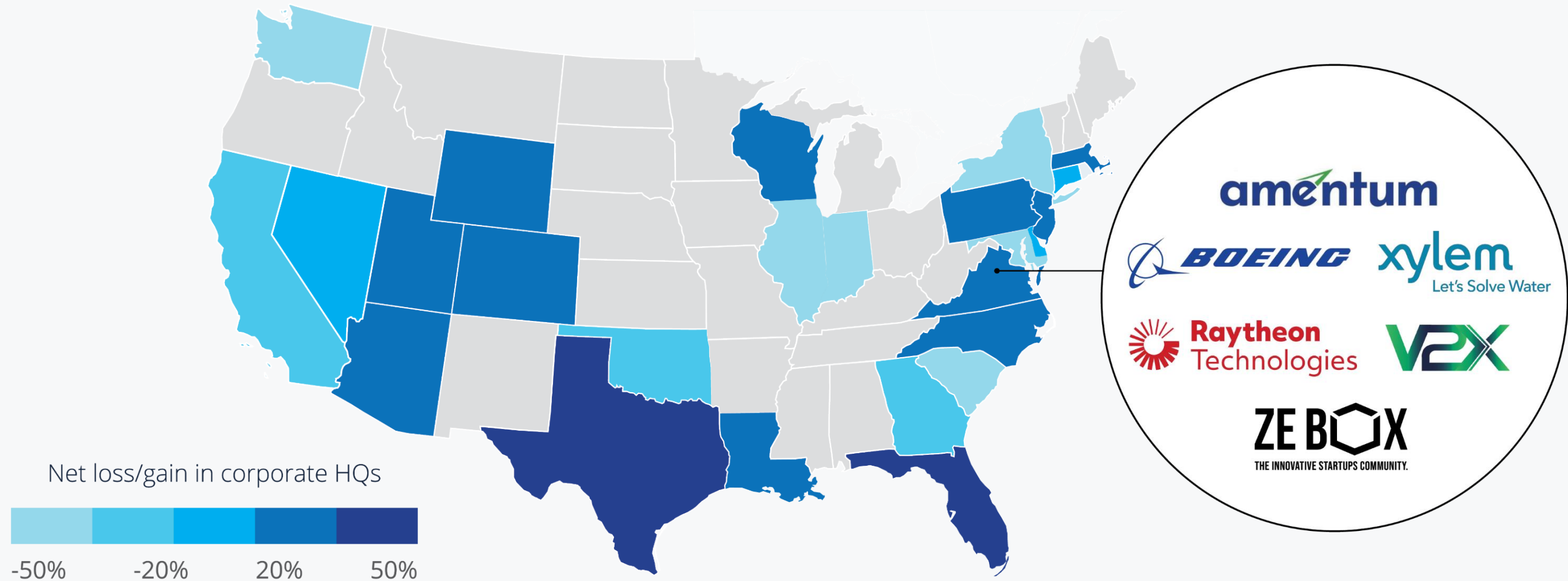


Note: Publicly traded corporations.
Source: Hire a Helper analysis of SEC filings.

CORPORATIONS ARE MOVING TOO

Northern Virginia holding its own.

CORPORATE HQ RELOCATIONS | 2022 TO 2023



Note: Map represents publicly traded corporations. Logos include some private companies.
Source: Hire a Helper analysis of SEC filings.



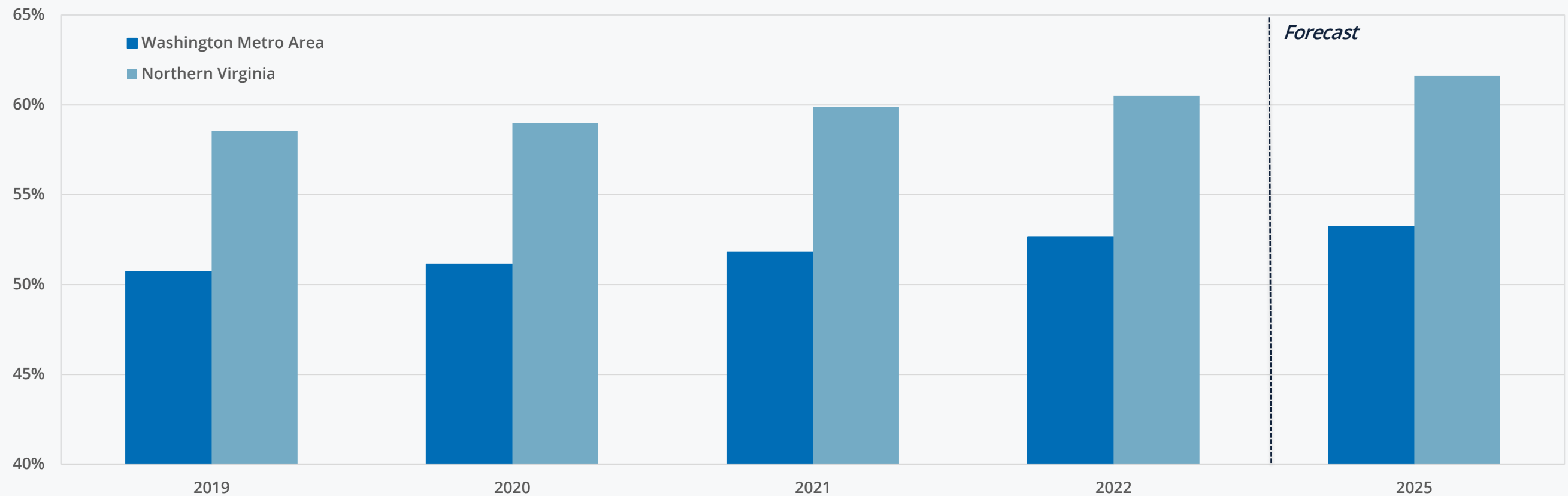
WHAT WE'RE SEEING

DEMOGRAPHICS FOR GROWTH

A SKILLED WORKFORCE

COVID did not cause a regional brain drain.

POPULATION WITH A BACHELOR'S DEGREE OR HIGHER | WASHINGTON METRO AREA



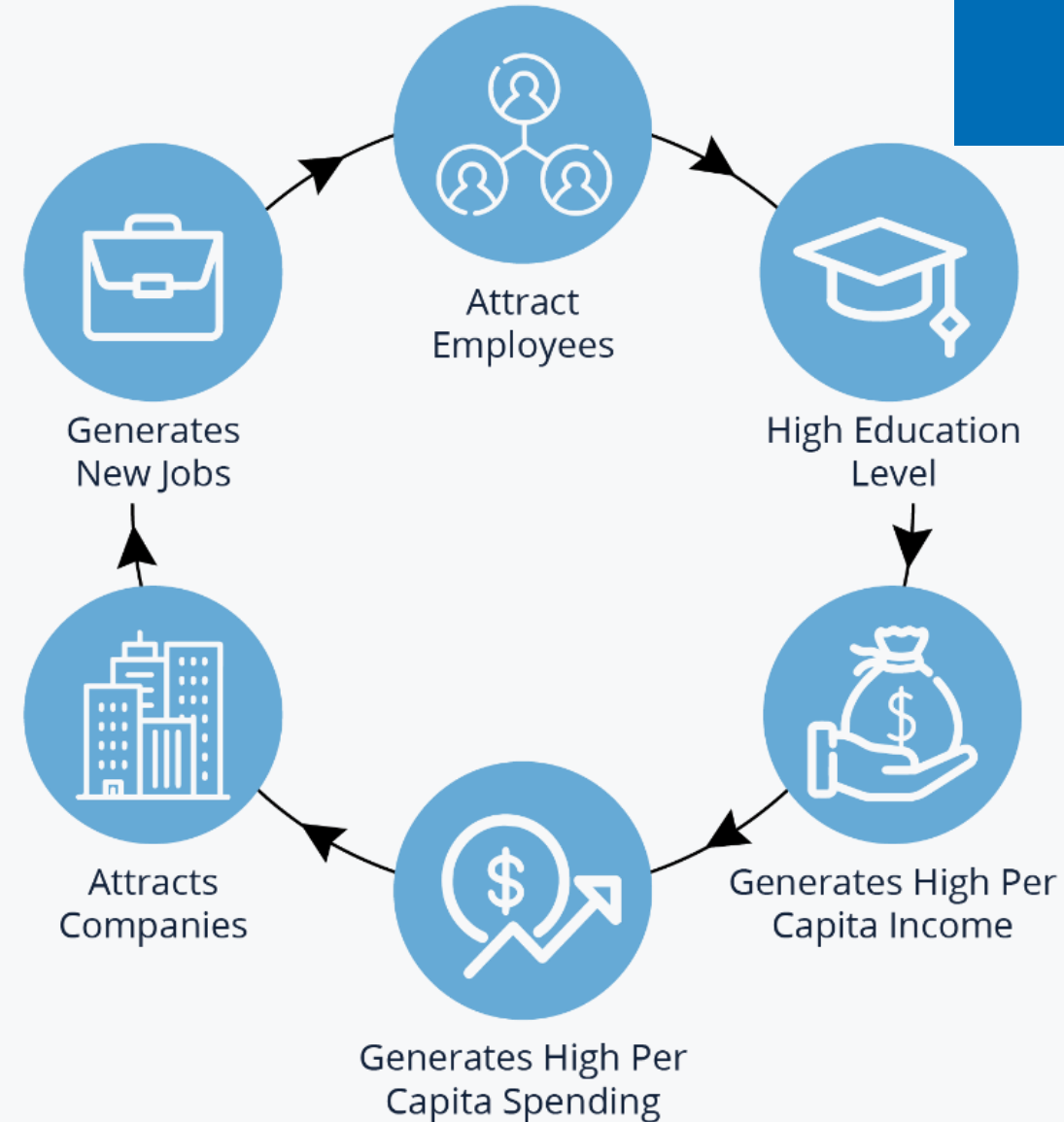
Source: U.S. Census, Lightcast, Transwestern.

2ND

IN NATION FOR
HIGH INCOME AND
HIGH RETAIL SPENDING

A CONTINUOUS CYCLE

Strong demographics attract companies & workers, which *can* feed CRE



Source: The New Geography of Jobs by Enrico Moretti, Robert Wood Johnson Foundation, ESRI, Lightcast, U.S. Census.



WHAT WE'RE SEEING
**OUR LIFESTYLE IS
JUST FINE, THE ISSUE
IS RETURN TO OFFICE**

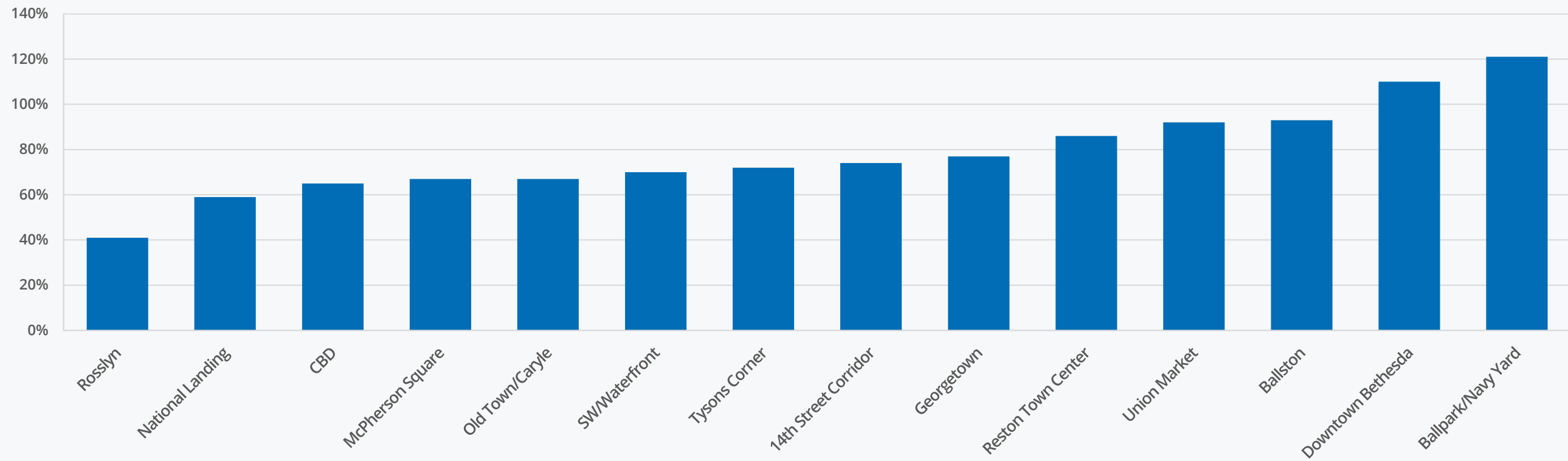
RETURN TO LIFESTYLE

People are going out, it's just not to the office.

87%

RECOVERY FOR RETAIL & DINING
IN THE DMV
COMPARED TO PRE-PANDEMIC

RETAIL/DINING FOOT-TRAFFIC RECOVERY COMPARED TO PRE-PANDEMIC

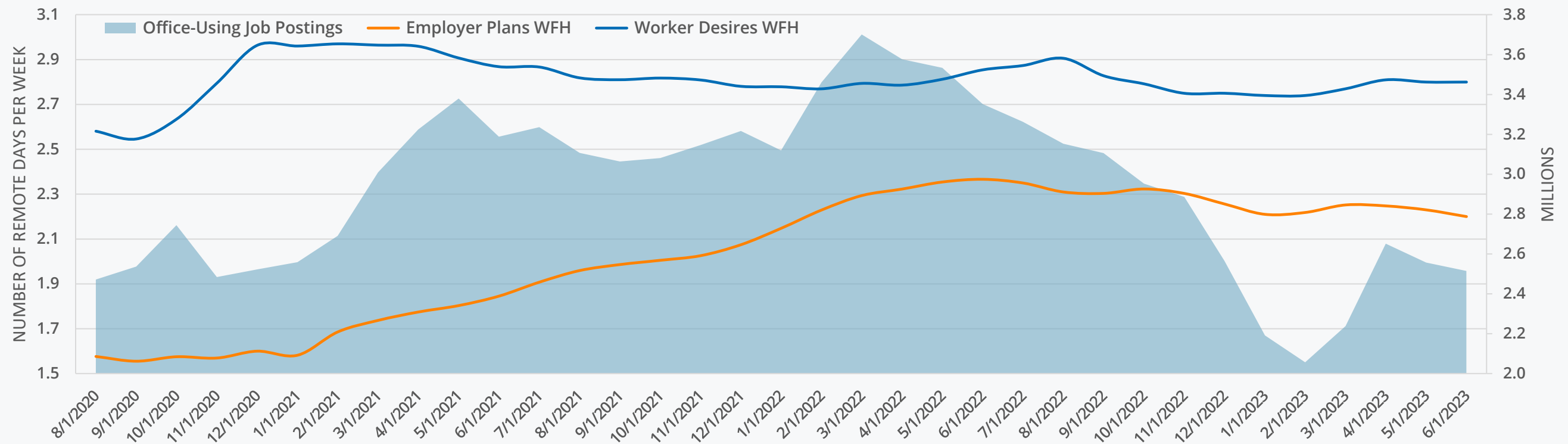


Source: Placer.ai.

EMPLOYER VS. WORKER

Return to office is better but fluctuates with the economy.

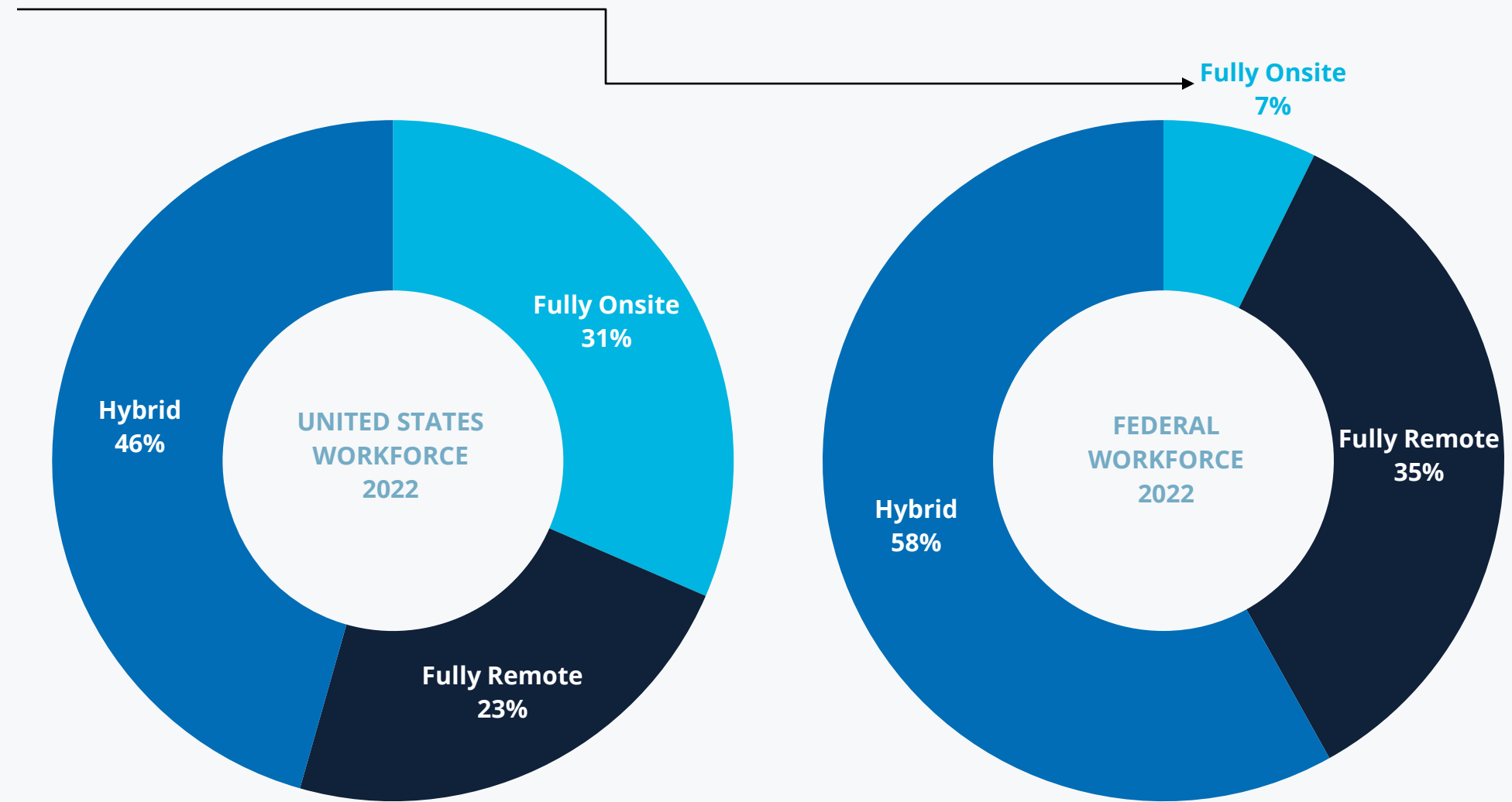
AVERAGE DAYS PER WEEK WORKING FROM HOME POST-PANDEMIC | UNITED STATES



Note: data is based on workers who are able to work remote.
Source: Survey of Working Arrangements and Attitudes (SWAA), Lightcast.

RETURN TO OFFICE

U.S. Federal Government lagging full return to office.



Source: Office of Personnel Management (OPM) Federal Employee Survey, Survey of Working Arrangements and Attitudes (SWAA).

RETAIL SURROUNDING OFFICE TAKING A HIT

Remote work impacts office daytime spending.



SAN FRANCISCO
\$3,040



LOS ANGELES
\$4,200



PHOENIX
\$2,757



DALLAS
\$2,869



CHICAGO
\$2,387



ATLANTA
\$3,938



HOUSTON
\$2,167



PHILADELPHIA
\$2,161



NEW YORK
\$4,661



WASHINGTON, DC
\$4,051



BOSTON
\$2,539

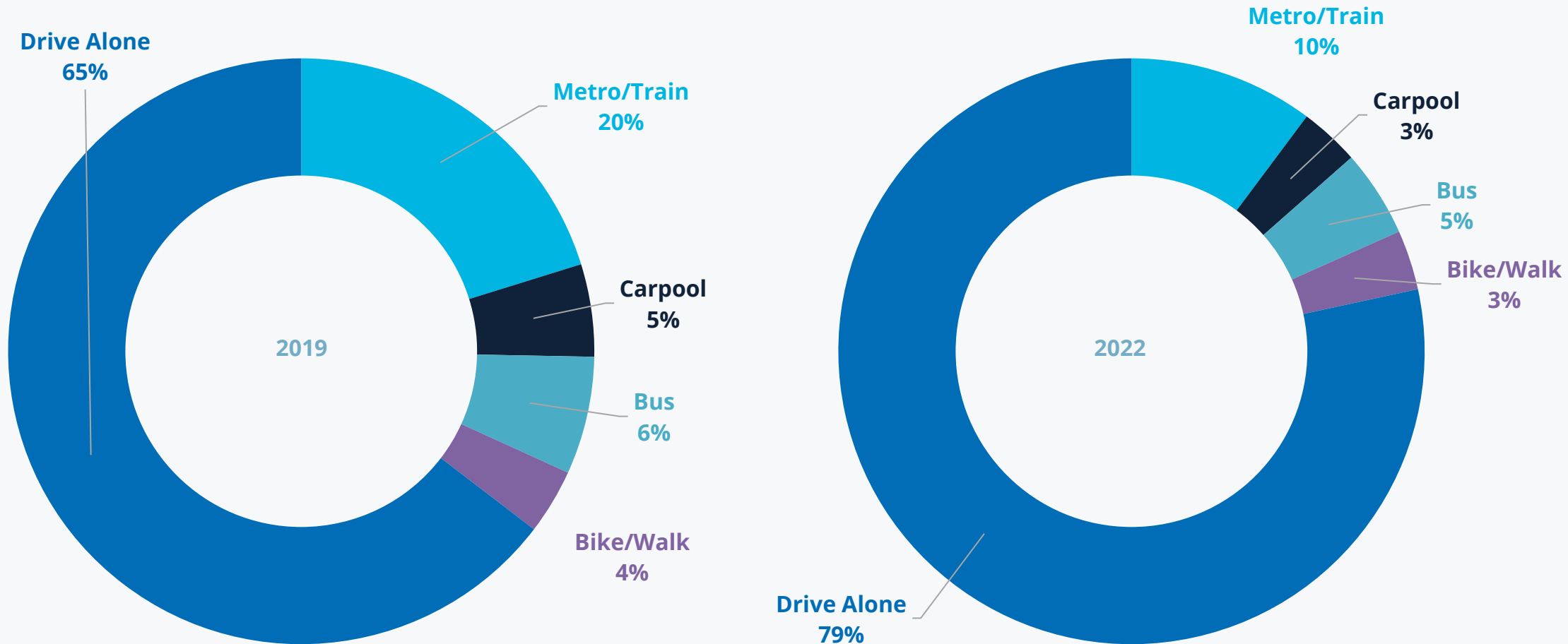
\$4,051
LOST ANNUAL SPENDING
PER PERSON FOR RETAILERS &
RESTAURANTS

Source: Survey of Working Arrangements and Attitudes (SWAA).

CAR VS. METRO

Commuters love their car.

COMMUTE MODE | WASHINGTON METRO AREA



57%

**WEEKDAY MORNING RUSH HOUR
METRO RIDERSHIP IS DOWN**
COMPARED TO PRE-PANDEMIC

Source: Metropolitan Washington Council of Governments, WMATA.

A person with a backpack is seen from behind, waiting for a train. The train is blurred, suggesting motion. The person is wearing a dark jacket and has a water bottle in their backpack.

-13.5%

Public Commute
Modes

A close-up shot of a person's hands on a steering wheel, driving a car at night. The background is blurred with city lights, creating a bokeh effect.

+13.8%

Drive Alone

Source: Metropolitan Washington Council of Governments, WMATA.



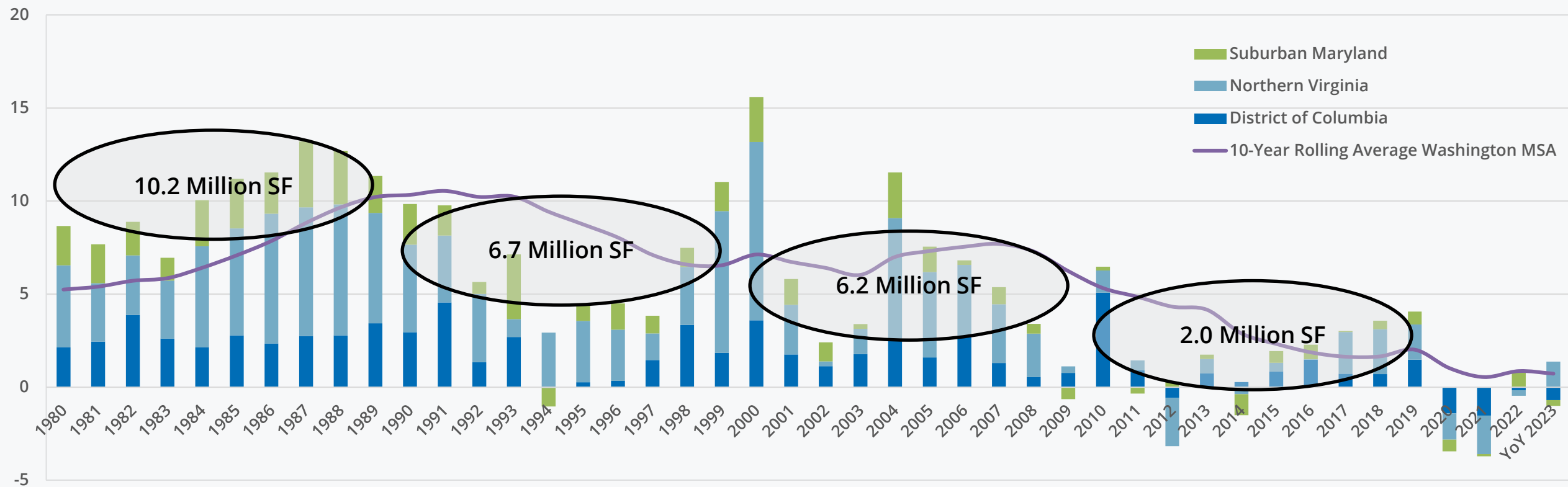
WHAT WE'RE SEEING

OFFICE MARKET WAS ALREADY DECELERATING

NET ABSORPTION

Absorption was already decelerating.

OFFICE NET ABSORPTION | WASHINGTON METRO AREA

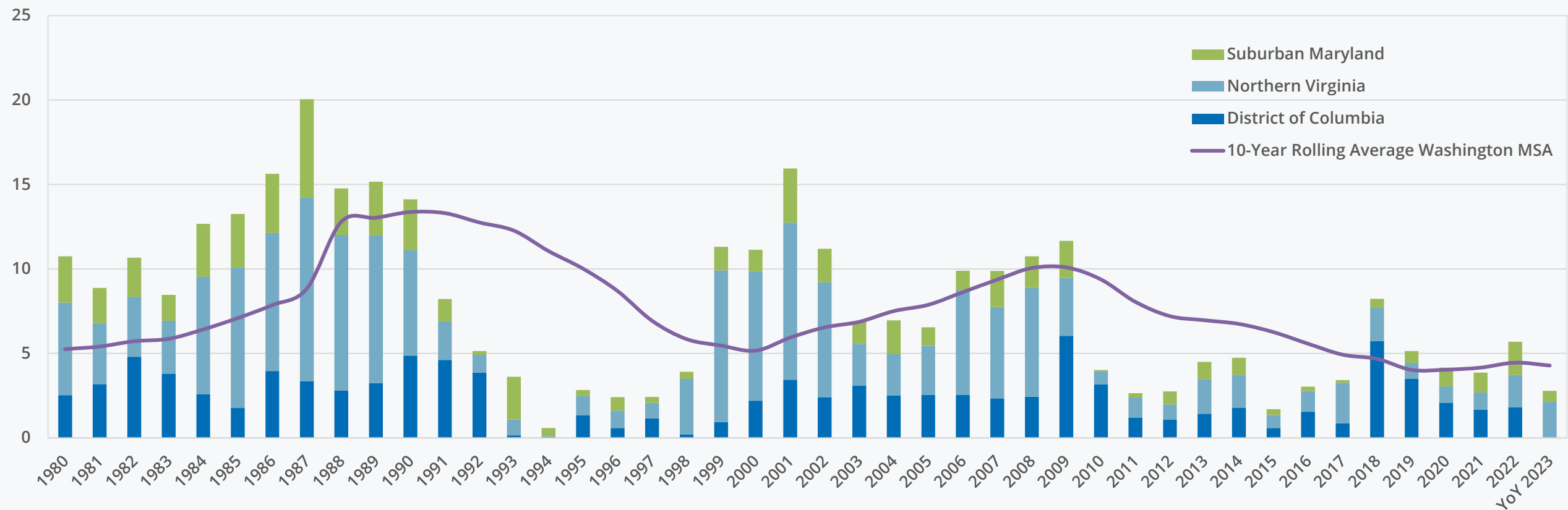


Source: CoStar, Transwestern.

PIPELINE

New product coming on-line decelerating.

OFFICE DELIVERIES | WASHINGTON METRO AREA



Source: CoStar, Transwestern.



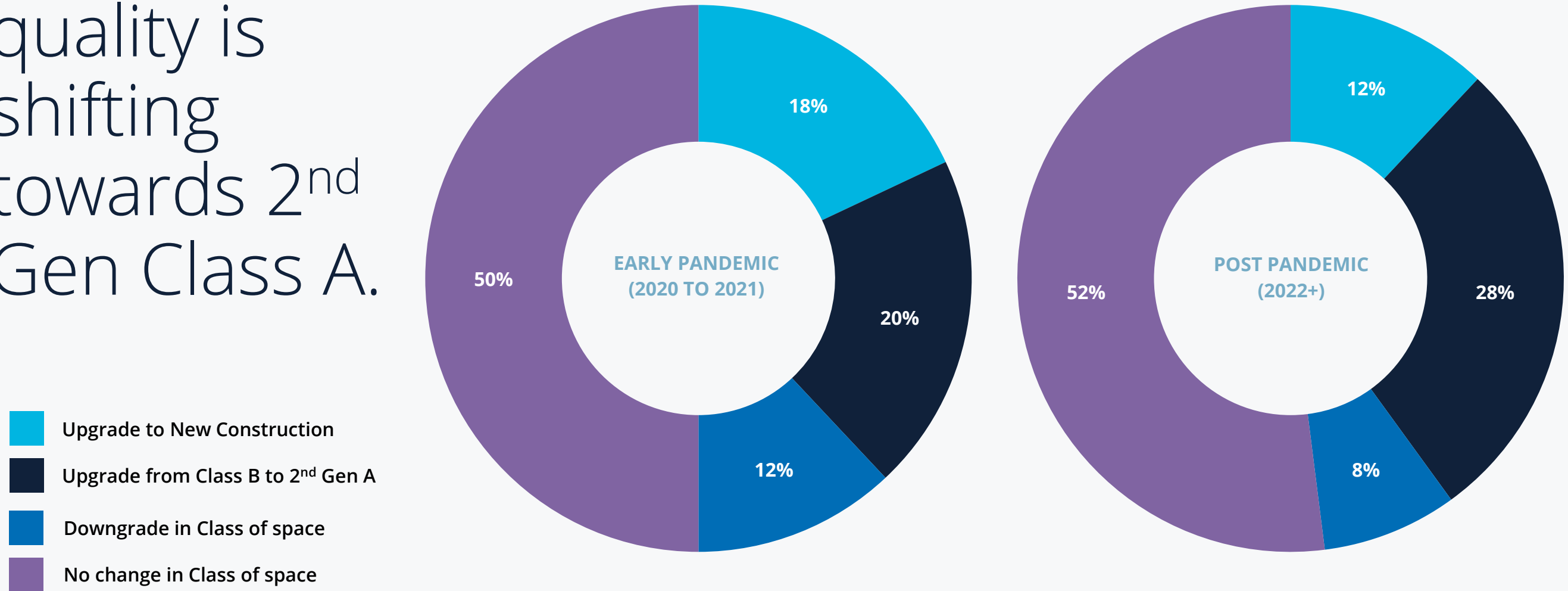
WHAT WE'RE SEEING

FLIGHT TO QUALITY PERSISTENT, BUT SHIFTING

BETTER IS BETTER, APPARENTLY

The flight to quality is shifting towards 2nd Gen Class A.

TENANT RELOCATION PATTERNS | WASHINGTON METRO AREA



Source: CoStar, CompStak, Transwestern.

GET IT BEFORE IT'S GONE

The market *can be* tighter than it seems.



BY CLASS OF SPACE

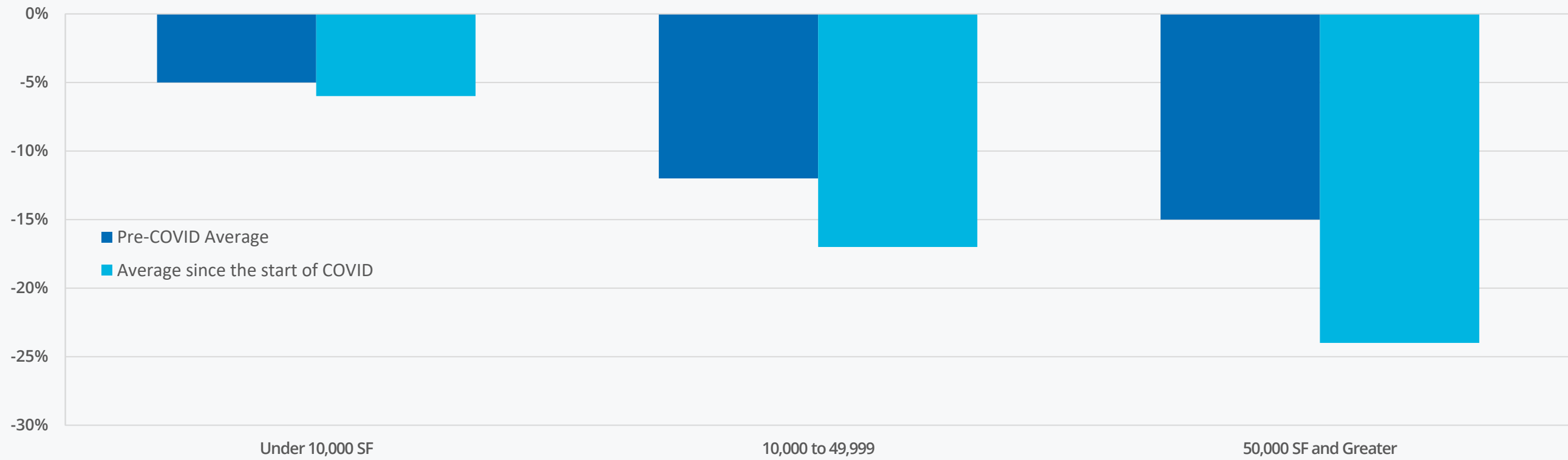


Source: CoStar, CompStak, Transwestern.

TENANTS RIGHTSIZING

Reduction in office space accelerates.

OFFICE TENANT CHANGE IN SF UPON RELOCATION BY TENANT SIZE | WASHINGTON METRO AREA



Source: CoStar, CompStak, WBJ, BISNOW, Transwestern.



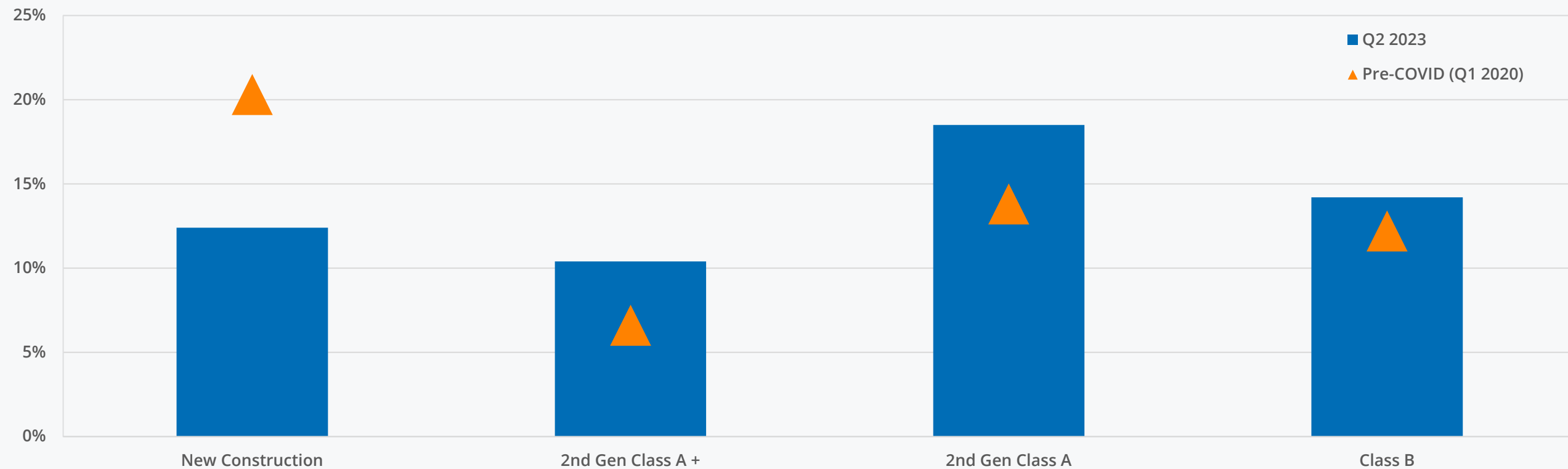
WHAT WE'RE SEEING

PRESSURE ON OFFICE IS REAL

OFFICE METRICS

Older product struggling.

DIRECT VACANCY RATE BY CLASS | WASHINGTON METRO AREA



Northern Virginia
at Q2 2023

11.5%

13.0%

21.4%

13.8%

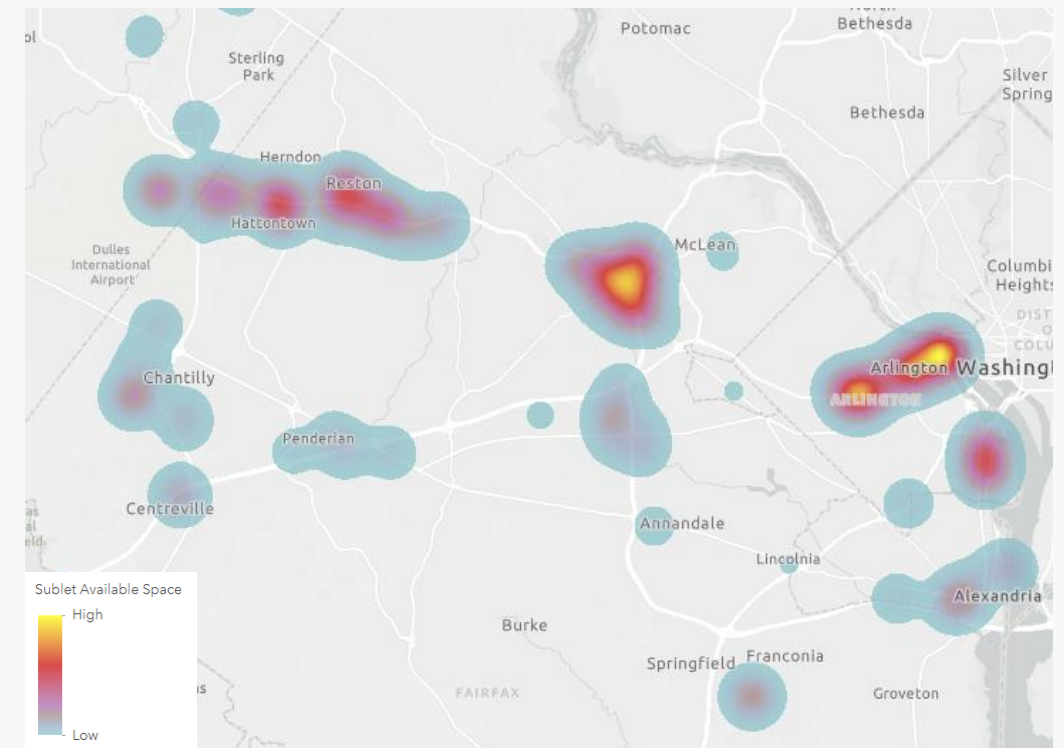
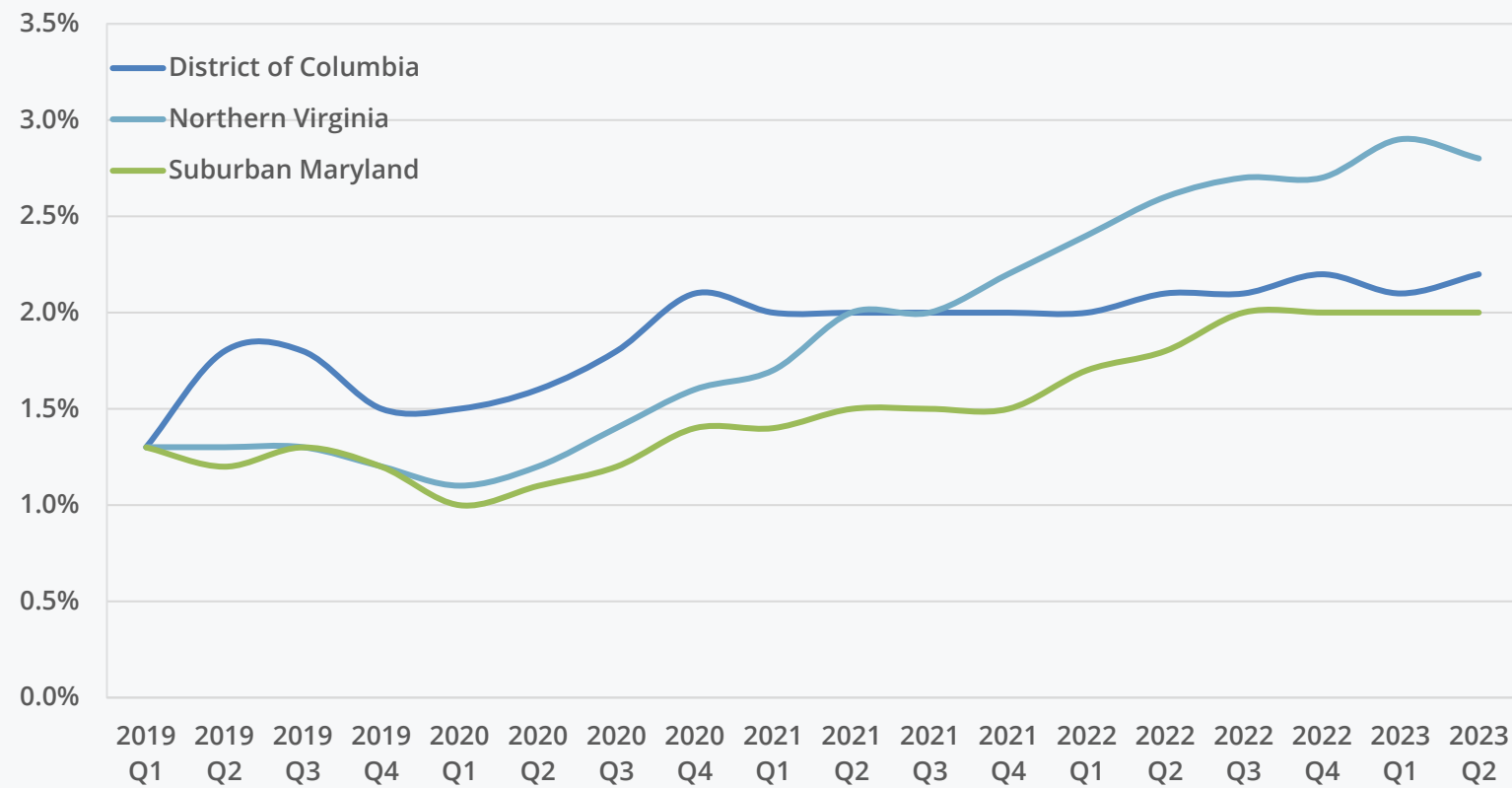
Source: CoStar, CompStak, Transwestern.

SUBLEASE METRICS

Rising sublease availability should be watched.

64%
OF SUBLEASE AVAILABILITY IS IN 2ND GENERATION CLASS A

SUBLEASE AVAILABILITY | WASHINGTON METRO AREA

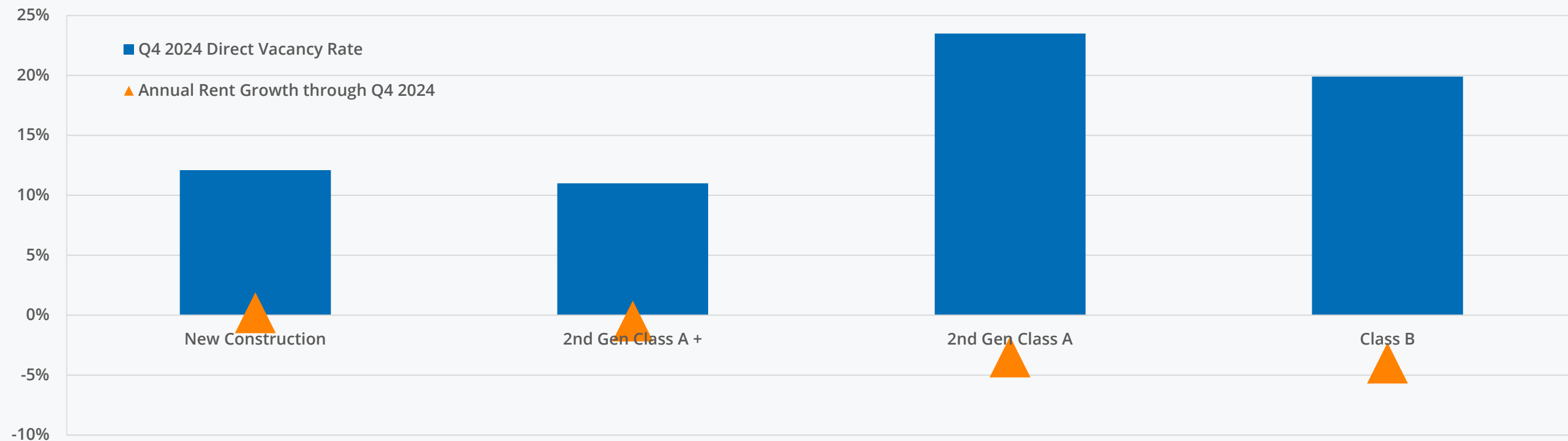


Source: CoStar, CompStak, Transwestern.

OFFICE PROJECTIONS

Vacancy rate to rise in older product.

DIRECT VACANCY RATE VS. RENT GROWTH BY CLASS | WASHINGTON METRO AREA | THROUGH Q4 2024



Northern Virginia
at Q4 2024

10.1%

13.6%

26.8%

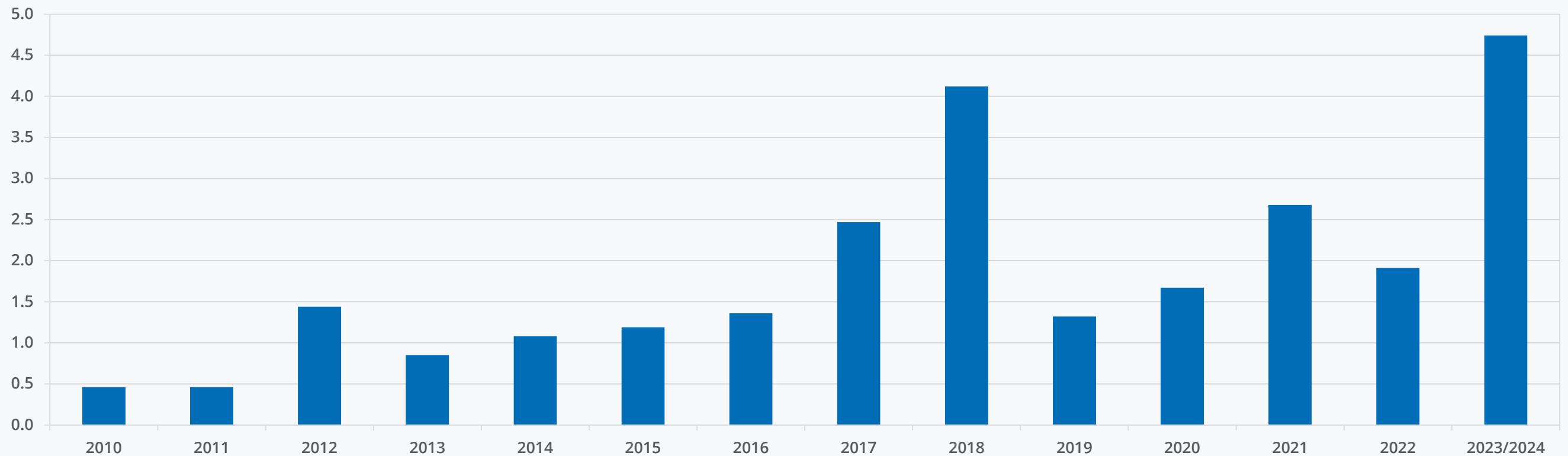
20.0%

Source: CoStar, CompStak, Transwestern.

OFFICE DEMOLITIONS & CONVERSIONS

Demolitions/conversions are not a silver bullet.

OFFICE DEMOLITIONS/CONVERSIONS IN MILLIONS OF SF | WASHINGTON METRO AREA



Source: CoStar, CompStak, Transwestern.



OPPORTUNITIES

THE GLASS CAN BE HALF FULL

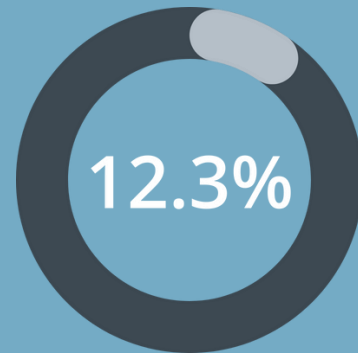
Office can perform, *with the right attributes.*

OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA

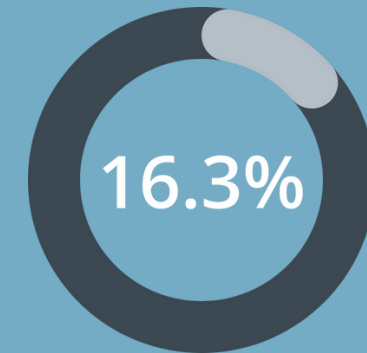


CORNER BUILDINGS

Q2 2023
DIRECT
VACANCY
RATE



NORTHERN VIRGINIA
AVERAGE



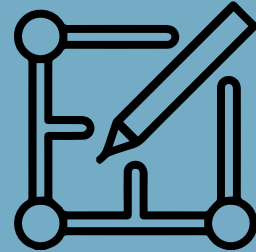
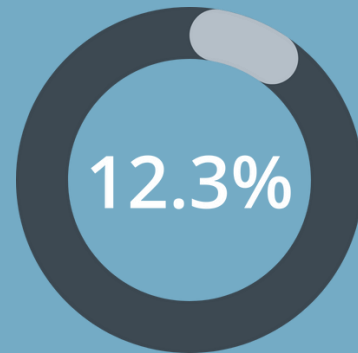
Source: CoStar, CompStak, Transwestern.

Office can perform, *with the right attributes.*

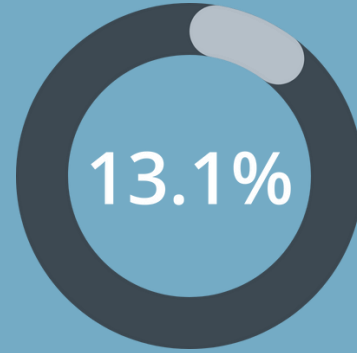
OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA



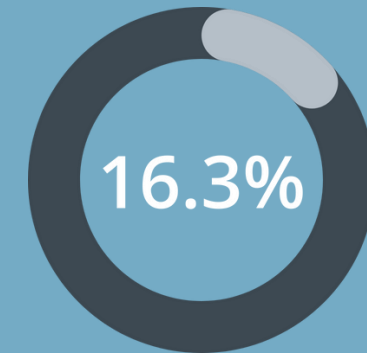
CORNER BUILDINGS



MIX OF AMENITIES &
SPACE USE



NORTHERN VIRGINIA
AVERAGE



Q2 2023
DIRECT
VACANCY
RATE

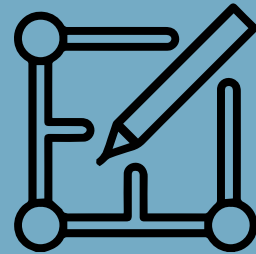
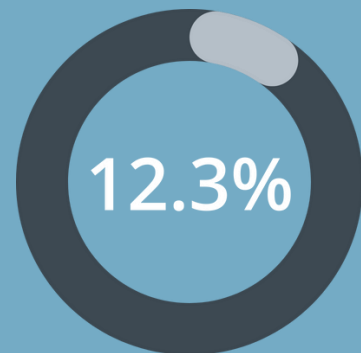
Source: CoStar, CompStak, Transwestern.

Office can perform, *with the right attributes.*

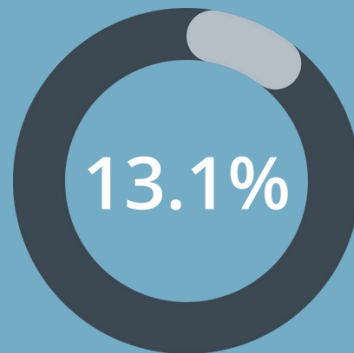
OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA



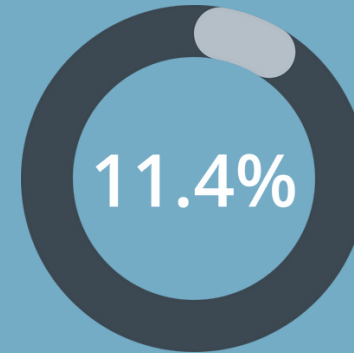
CORNER BUILDINGS



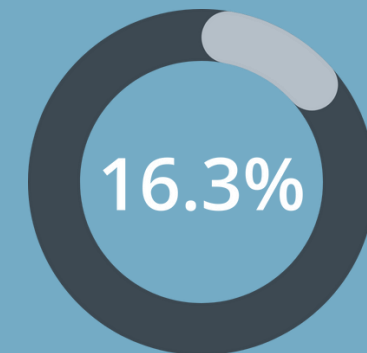
MIX OF AMENITIES & SPACE USE



MEDICAL OFFICE



NORTHERN VIRGINIA AVERAGE

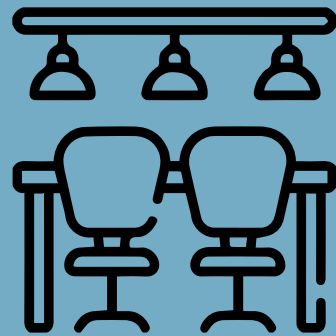


Q2 2023
DIRECT
VACANCY
RATE

Source: CoStar, CompStak, Transwestern.

Office can perform, *with the right attributes.*

OFFICE SPEC SUITES | NORTHERN VIRGINIA



SPEC
SUITES

Q2 2023 MONTHS OF
DOWNTIME SPEC SUITE

11

Q2 2023 MONTHS OF
DOWNTIME SPEC SUITE WHEN
SURROUNDING AMENITY ZONE

10

NORTHERN VIRGINIA
OFFICE DOWNTIME
FOR TRADITIONAL
SPACE

24

Source: CoStar, CompStak, Transwestern.

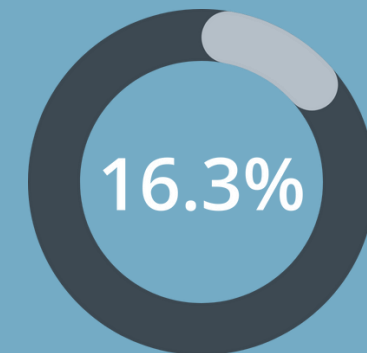
Office can perform, *in the right location.*

OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA

Q2 2023
DIRECT
VACANCY
RATE



NORTHERN VIRGINIA
AVERAGE



Source: CoStar, CompStak, Transwestern.

Office can perform, *in the right location.*

OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA

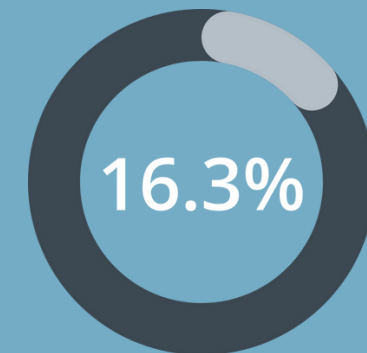


INNOVATION
HUBS

Q2 2023
DIRECT
VACANCY
RATE



NORTHERN VIRGINIA
AVERAGE



Source: CoStar, CompStak, Transwestern.

Office can perform, *in the right location.*

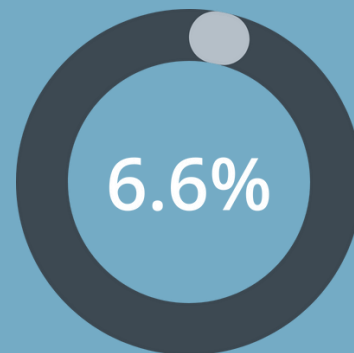
OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA



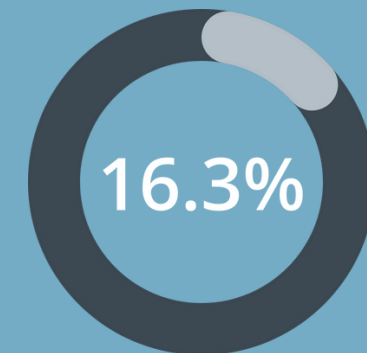
INNOVATION
HUBS



PLACES WITH A
PURPOSE



NORTHERN VIRGINIA
AVERAGE



Q2 2023
DIRECT
VACANCY
RATE

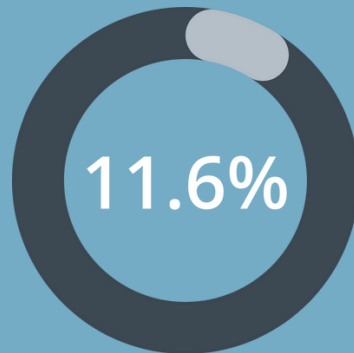
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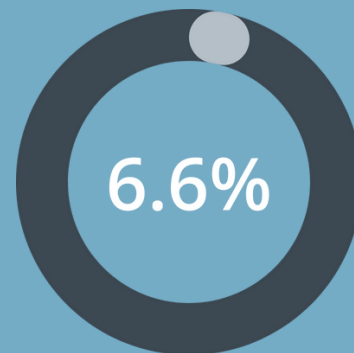
OFFICE DIRECT VACANCY RATE | NORTHERN VIRGINIA



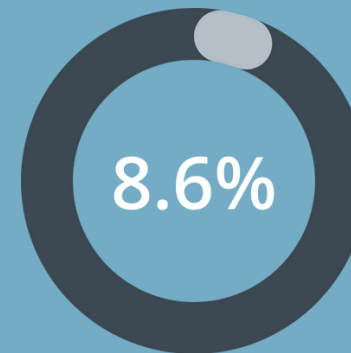
INNOVATION
HUBS



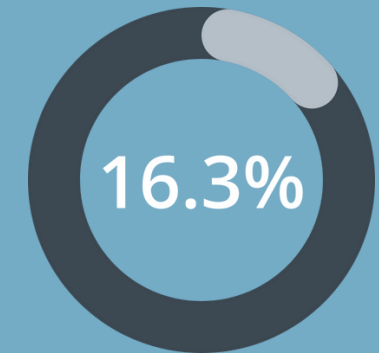
PLACES WITH A
PURPOSE



ENERGIZED,
MIXED-USE



NORTHERN VIRGINIA
AVERAGE



Q2 2023
DIRECT
VACANCY
RATE

Source: CoStar, CompStak, Transwestern.



NAIOP / AUGUST 2023

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