



# Q2 2023 OFFICE MARKET REPORT

# Office Market - Key Trends Snapshot

## Office Market

**Overview:** There was a big bump in office absorption in Virginia in the second quarter thanks to the completion of Amazon's first two towers at its HQ2 site in Arlington. Other than those two buildings, overall absorption continues to be sluggish. There was little movement in office vacancies which remain elevated, however rents are still climbing. The office construction pipeline in Virginia slowed down significantly with the delivery of the Amazon towers. The office market continues to face multiple headwinds as workers have been slow to return to the office, vacancies remain a big factor, and higher interest rates have complicated refinancing options as a swell of office loans are facing maturity in the coming year. Office-supporting job sectors continue to expand, but the new jobs are not necessarily equating to demand for more office space. In lieu of more space, a growing trend with employers is to opt for smaller footprints in high-amenity buildings in central locations or specific job centers instead of larger spaces with fewer amenities in suburban office parks.

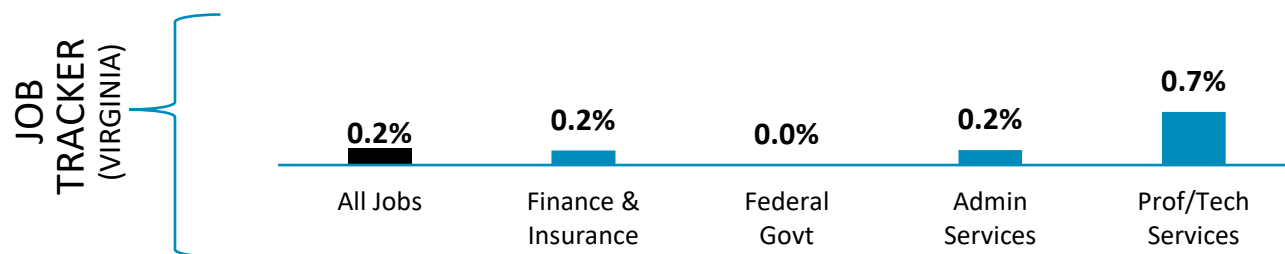
**Absorption:** There was 1.45 million square feet of office space absorbed in Virginia this quarter, an increase compared to last year. With the addition of Amazon's new HQ2 towers, Northern Virginia saw Class A building absorption increase this quarter to over 1.7 million square feet of office space. Lynchburg had the largest positive net absorption of Class B/C buildings in Q2 2023.

**Vacancy:** In the office market, statewide vacancy rates reached 12.5% during the second quarter of 2023, remaining unchanged from last quarter, but up slightly from last year. For Class A buildings, statewide vacancy rates dipped to 17.7% in the second quarter, down from 17.9% in the first quarter. In Q2 2023, statewide vacancy rates for Class B/C buildings rose to 8.8% in the second quarter from 8.7% last quarter.

**Rent:** Office rent continues to climb in Virginia with the rental rate at \$31.48 this quarter, the highest it has been in the last 10 years. Despite the rise in vacancy rates, Blacksburg had the most rental growth in the second quarter with rent up 27.2% year-over-year.

**Construction/Deliveries:** Total deliveries were up in the state with 2.2 million sq ft delivered in Q2 2023. The construction pipeline for office buildings in Virginia slowed by 22.5% this quarter from the year prior. Nearly all the state's current construction pipeline, about 95%, is in the Northern Virginia and Richmond markets.

### Office-Supporting Job Sectors (% Chg Apr-23 to May-23, seasonally adj.)



## VIRGINIA (Statewide)



### Market Indicator Dashboard

	YoY Chg	Q2-2023	Indicator
% chg	0.5%	412.4	<b>Total Inventory</b> (sq. ft, in millions)
sq. ft millions	2.0	1.5	<b>Net Absorption</b> (sq. ft, in millions)
pct point	0.3%	12.5%	<b>Vacancy Rate</b> (%)
\$ per sq. ft	\$0.81	\$31.48	<b>Gross Rent</b> (\$ per sq. ft)
sq. ft millions	1.8	2.2	<b>New Supply Delivered</b> (sq. ft, in millions)
sq. ft millions	-1.1	3.7	<b>Under Construction</b> (sq. ft, in millions)



### Economic Indicator Dashboard

	MoM Chg	May-23	Indicator
% chg	0.2%	4.1	<b>Total Jobs</b> (in millions, seasonally adjusted)
% chg	0.4%	1.1	<b>Office-Supporting Jobs</b> (in millions, seasonally adjusted)
pct point	-0.2%	2.9%	<b>Unemployment Rate</b> (% seasonally adjusted)
pct point	QoQ Chg -1.5%	Q1-2023 1.1	<b>Gross Domestic Product</b> (% chg from prior year)

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## Virginia Office Market

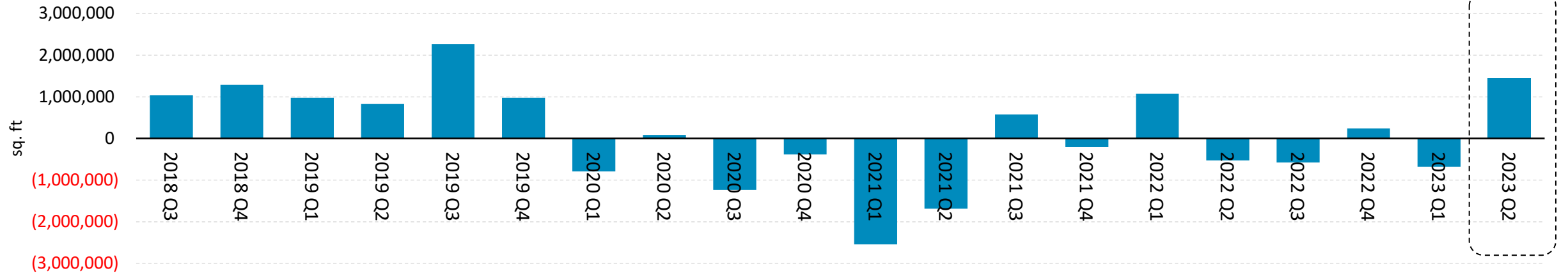
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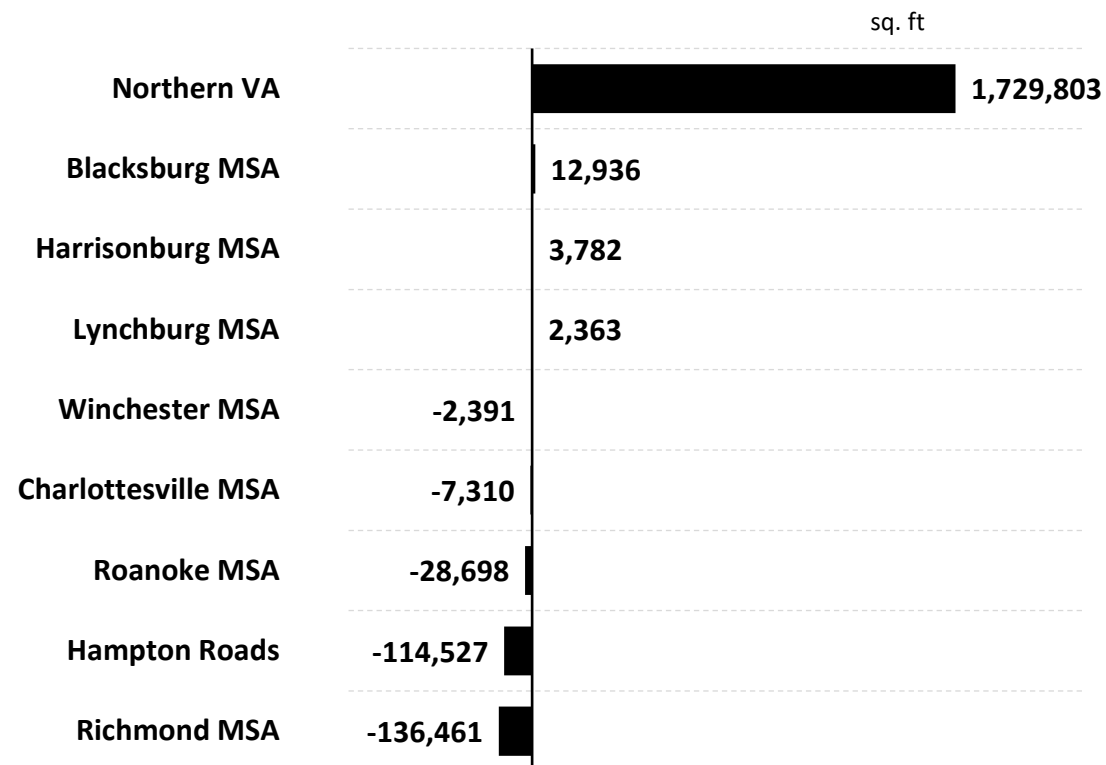
# Office Market - Absorption & Construction Trends

## VIRGINIA (Statewide)

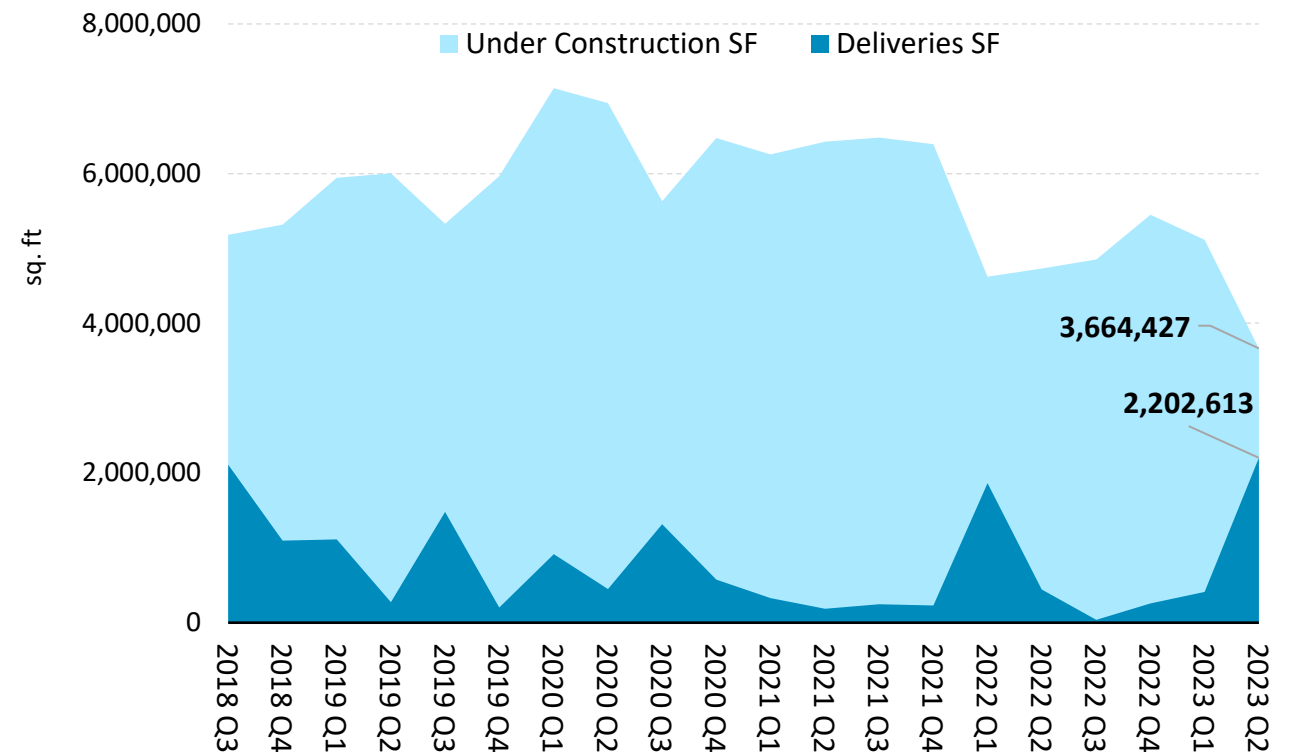
Net Absorption (sq. ft)



Q2-2023 Net Absorption by Metro Area (sq ft)



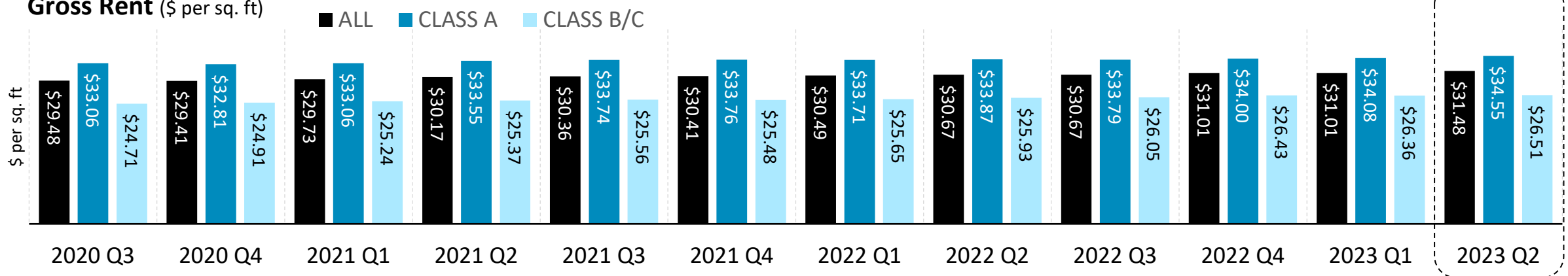
Under Construction & Net Deliveries (sq. ft)



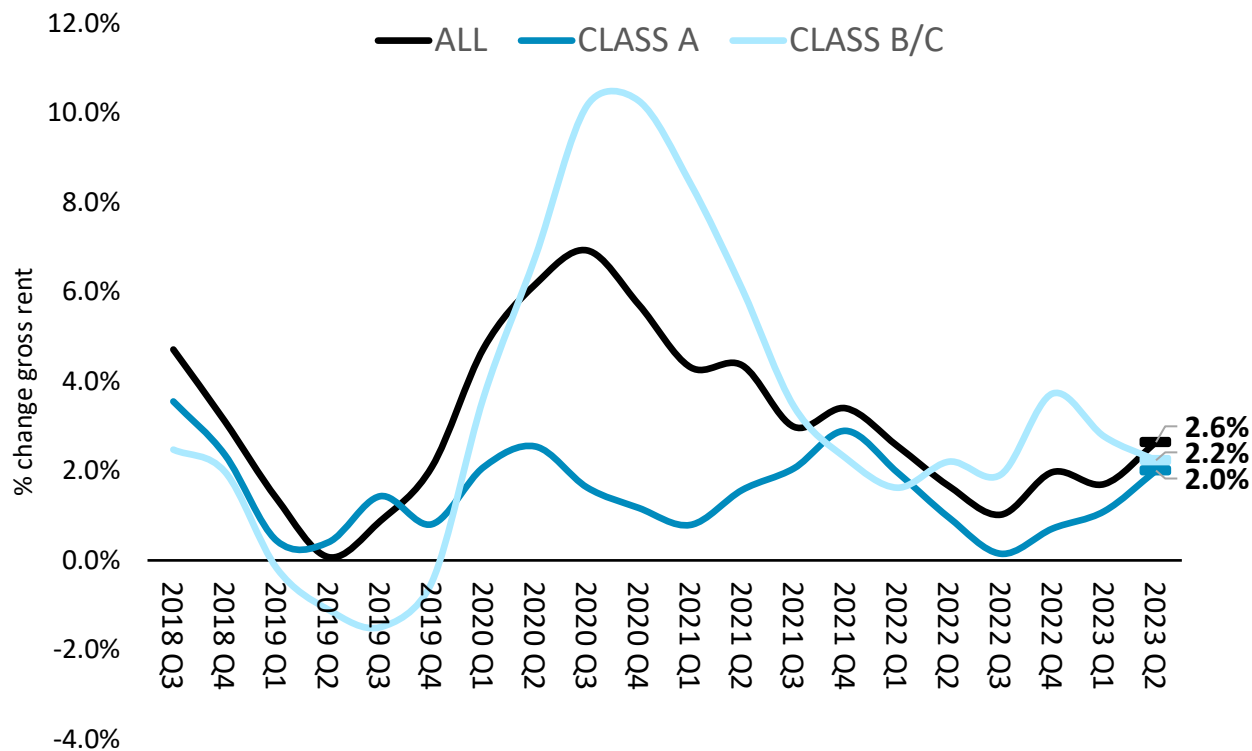
# Office Market - Rent Trends

## VIRGINIA (Statewide)

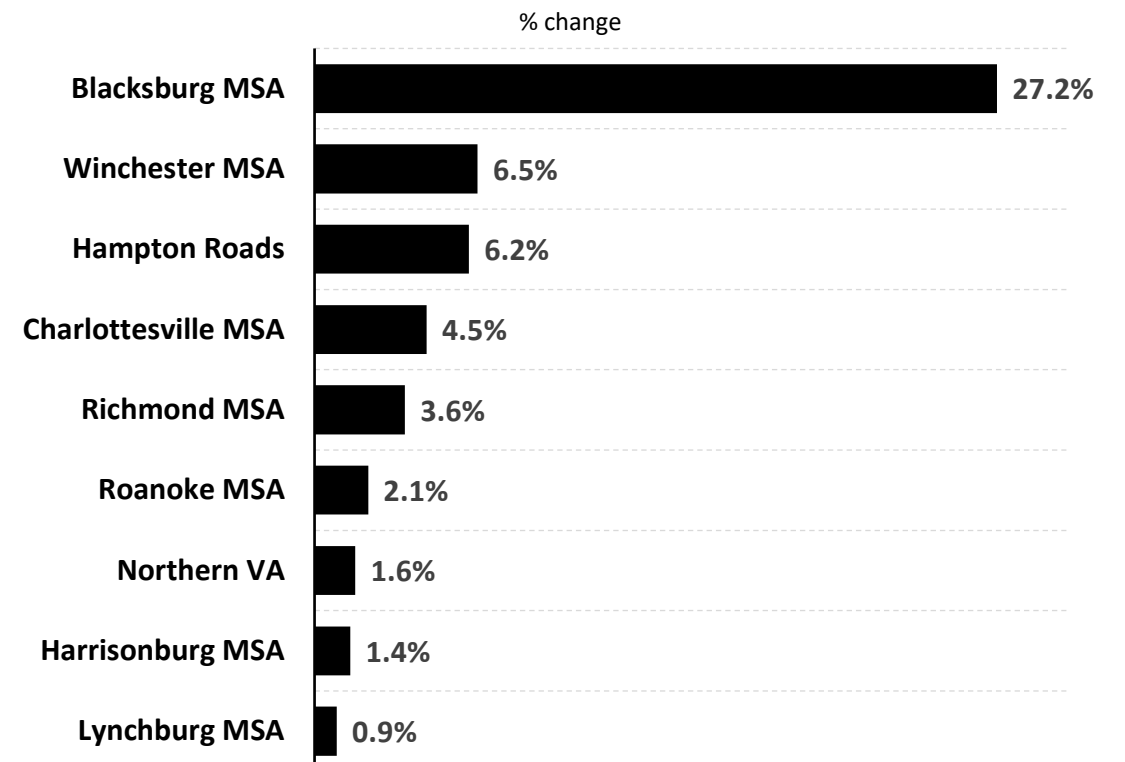
Gross Rent (\$ per sq. ft.)



% Change, Gross Rent (YoY % change)

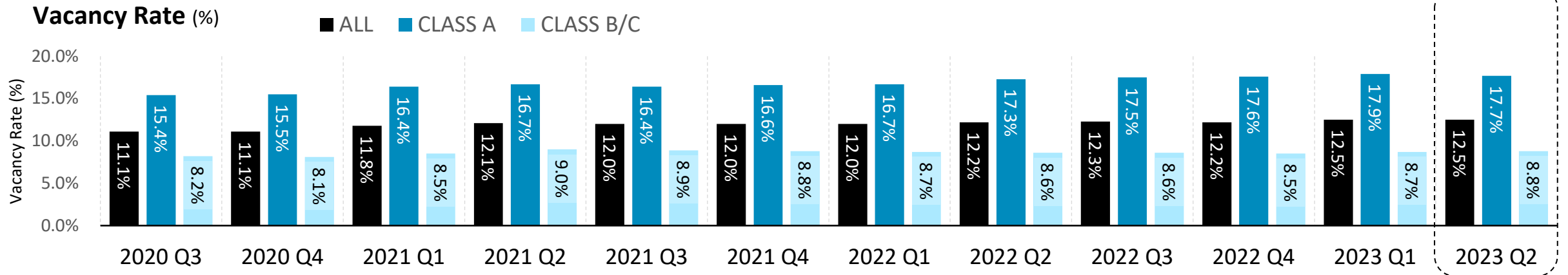


Q2-2023 by MSA: % Change, Gross Rent (YoY % change)

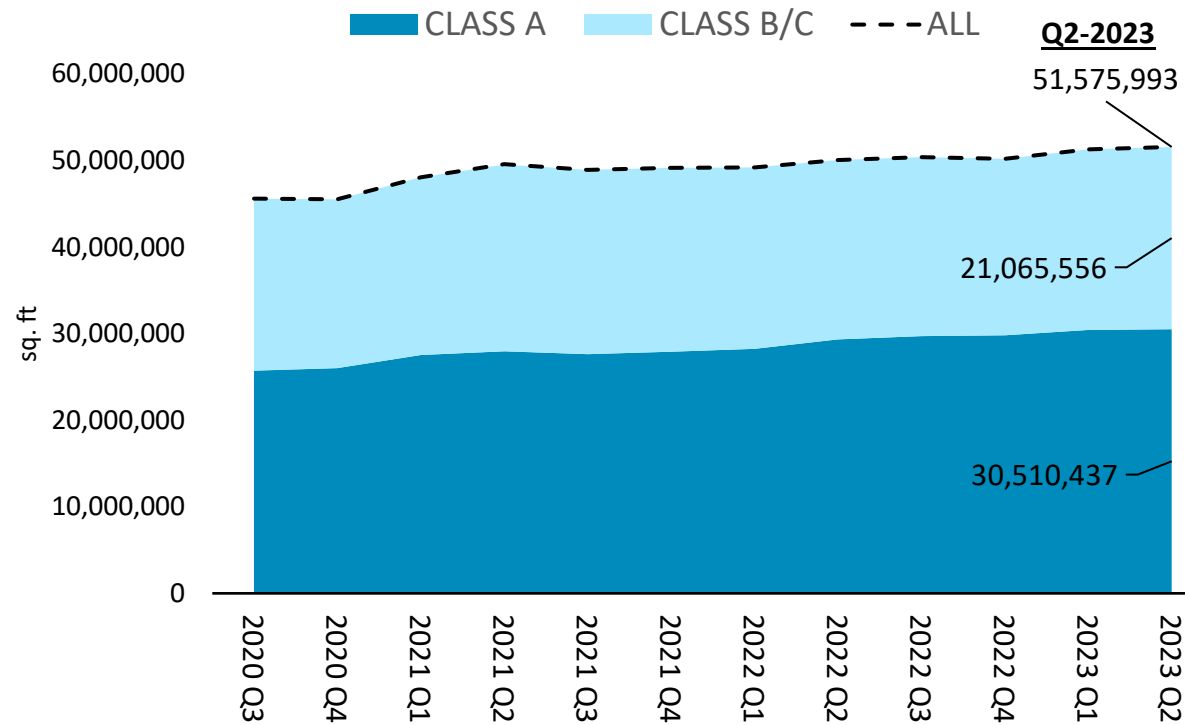


# Office Market - Vacancy Trends

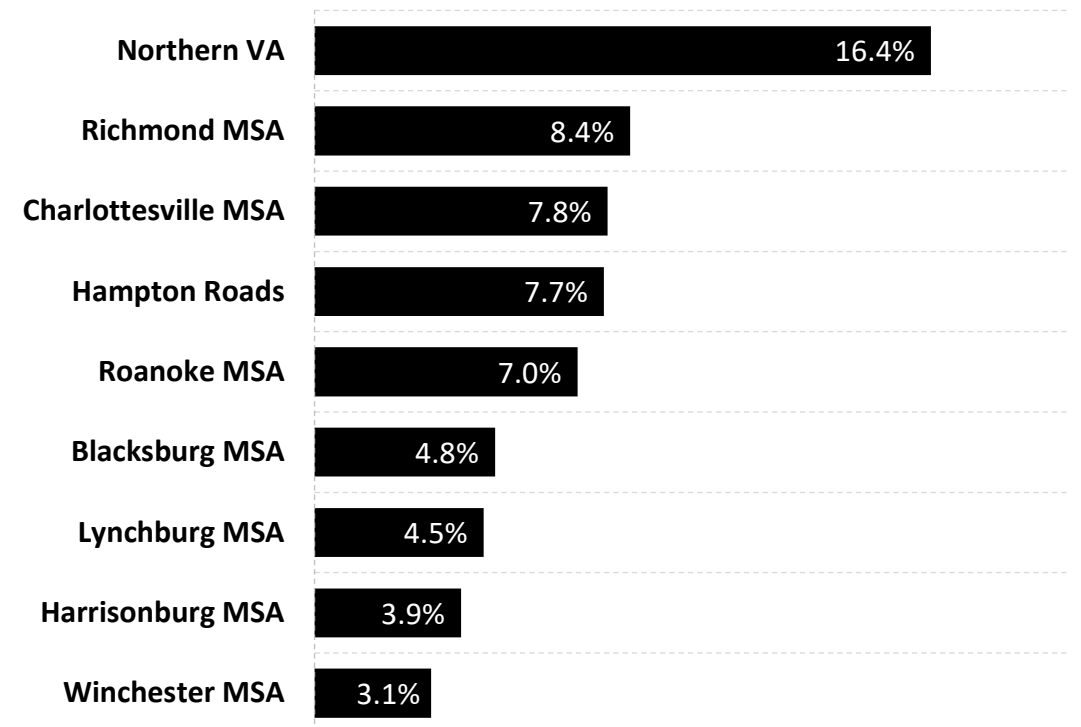
## VIRGINIA (Statewide)



## Vacant Inventory (sq. ft)



## Q2-2023 Office Vacancy Rate by MSA



# MSA TRENDS

METROPOLITAN STATISTICAL AREA

Q2



2023

OFFICE  
Market Report



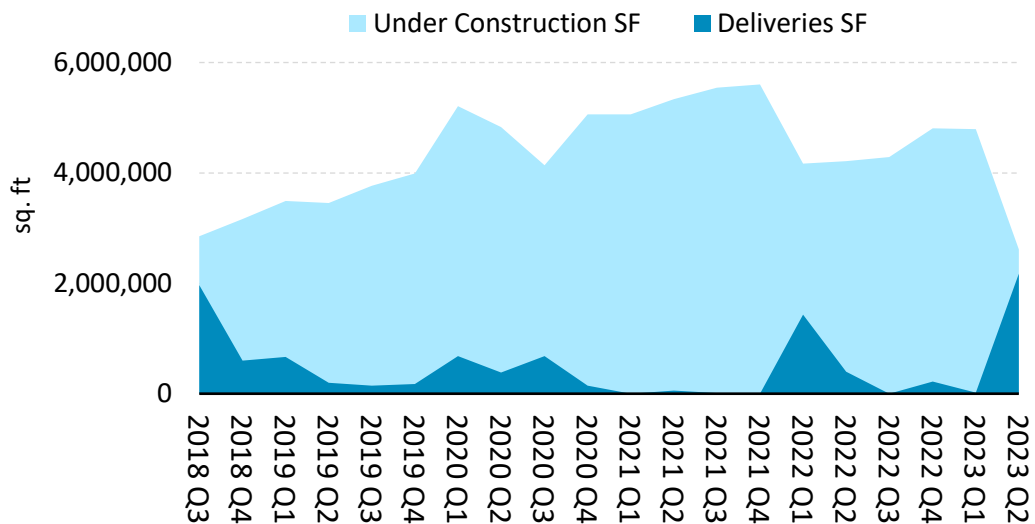
*Snapshot of Office Market Conditions Around Virginia*

## NORTHERN VIRGINIA

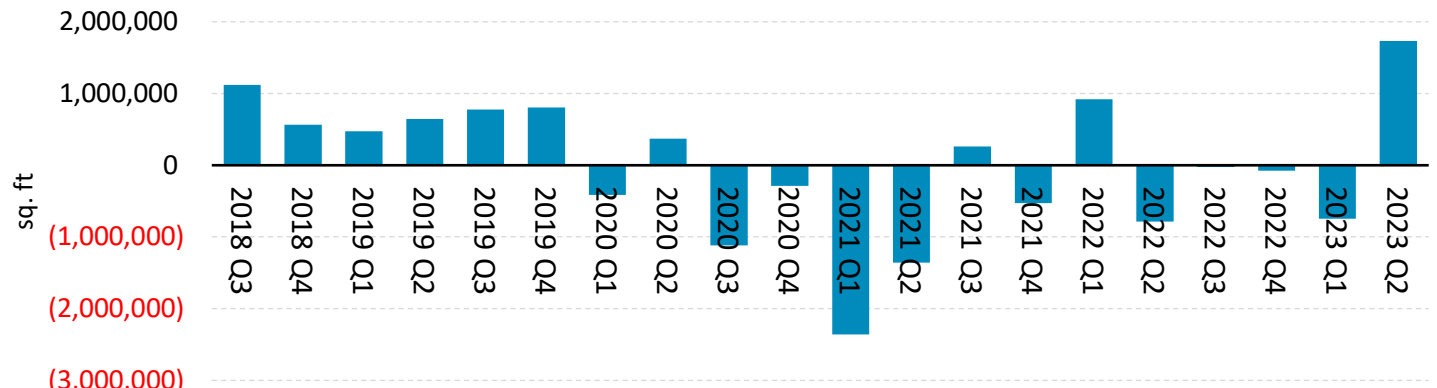
### Local Market Indicator Dashboard

	Q2-2023	YoY Chg
Total Inventory (sq. ft, millions)	<b>233.0</b>	<b>0.6%</b> % chg
Vacancy Rate (%)	<b>16.4%</b>	<b>0.1%</b> pct points
Net Absorption (sq. ft)	<b>1,729,803</b>	<b>2,514,826</b> sq. ft
Avg Gross Rent (\$ per sq. ft)	<b>\$33.68</b>	<b>\$0.54</b> \$ per sq. ft
Deliveries (sq. ft)	<b>2,174,114</b>	<b>1,778,998</b> sq. ft
Under Construction (sq. ft)	<b>2,617,375</b>	<b>-1,592,336</b> sq. ft

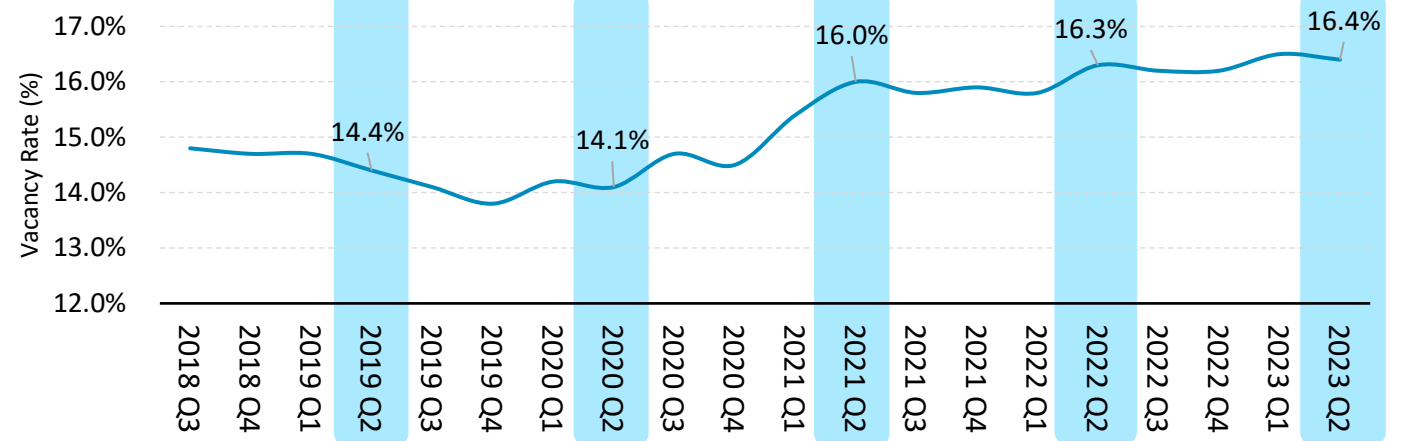
### Under Construction & Net Deliveries (sq. ft)



### Net Absorption (sq. ft)



### Vacancy Rate (%)



### Gross Rent (\$ per sq. ft)





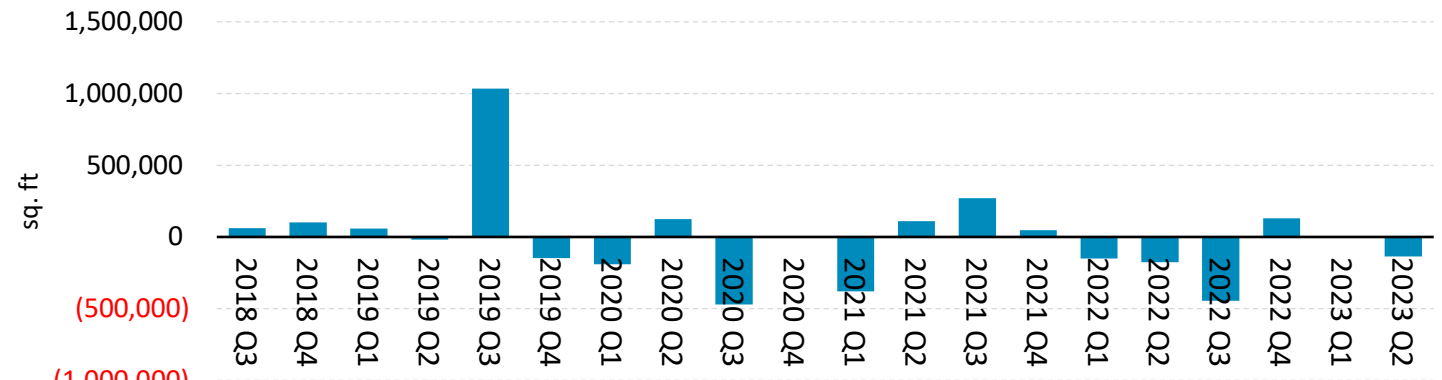
# Office Market - MSA Trends

## RICHMOND MSA

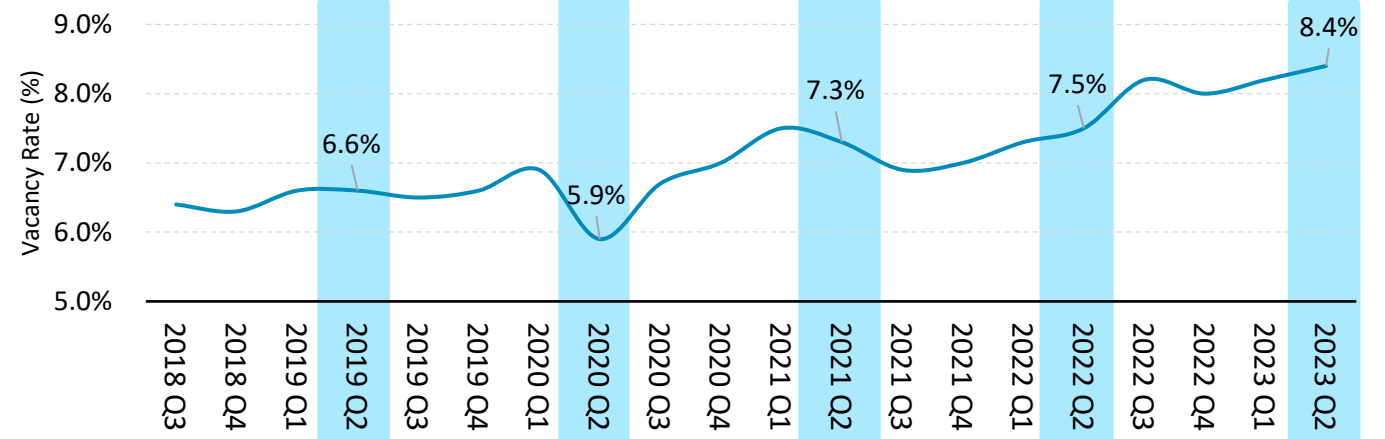
### Local Market Indicator Dashboard

	Q2-2023	YoY Chg
Total Inventory (sq. ft, millions)	<b>68.0</b>	<b>0.2%</b> % chg
Vacancy Rate (%)	<b>8.4%</b>	<b>0.9%</b> pct points
Net Absorption (sq. ft)	<b>(136,461)</b>	<b>38,253</b> sq. ft
Avg Gross Rent (\$ per sq. ft)	<b>\$20.69</b>	<b>\$0.72</b> \$ per sq. ft
Deliveries (sq. ft)	<b>9,500</b>	<b>-5,500</b> sq. ft
Under Construction (sq. ft)	<b>898,152</b>	<b>725,147</b> sq. ft

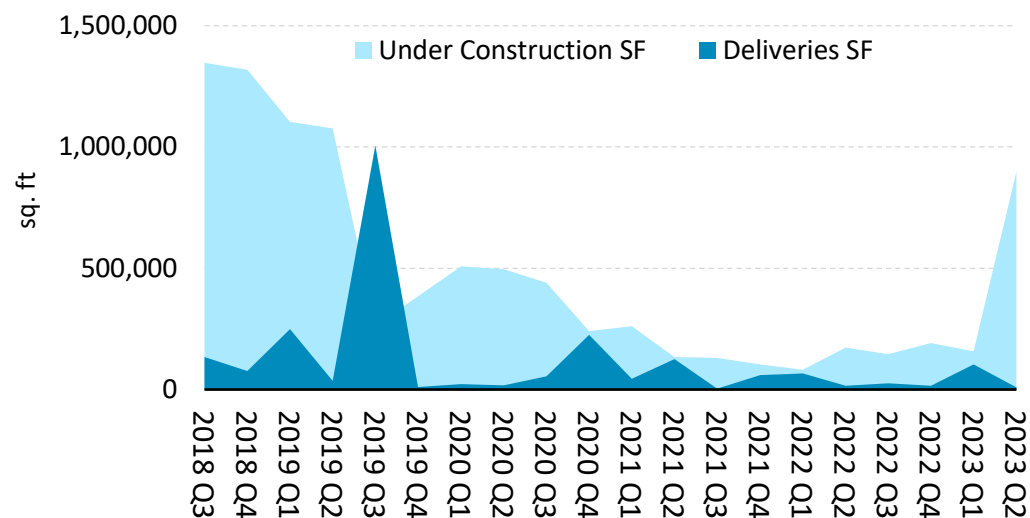
### Net Absorption (sq. ft)



### Vacancy Rate (%)



### Under Construction & Net Deliveries (sq. ft)



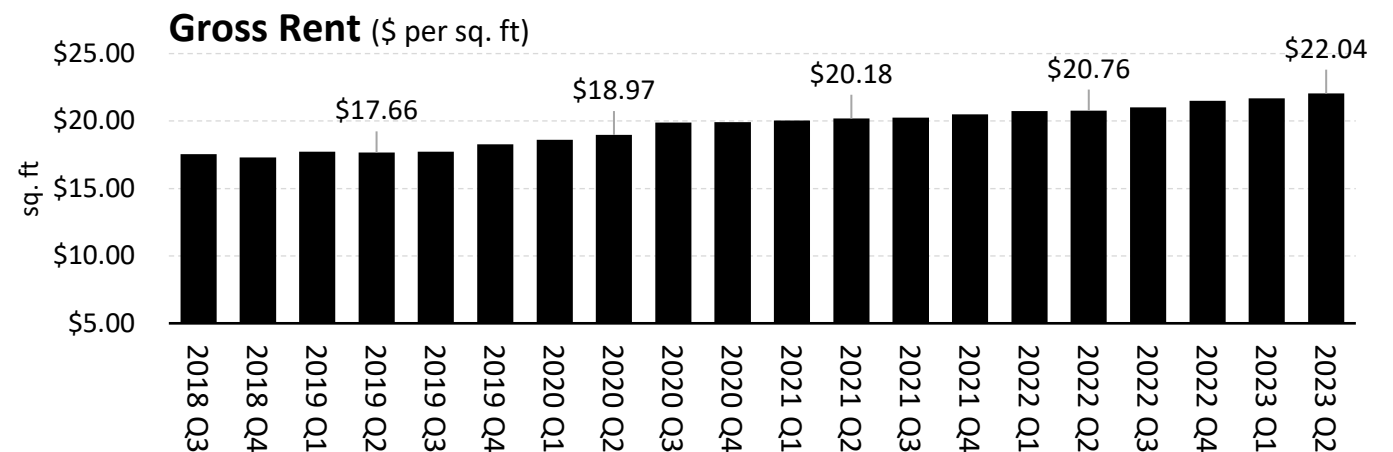
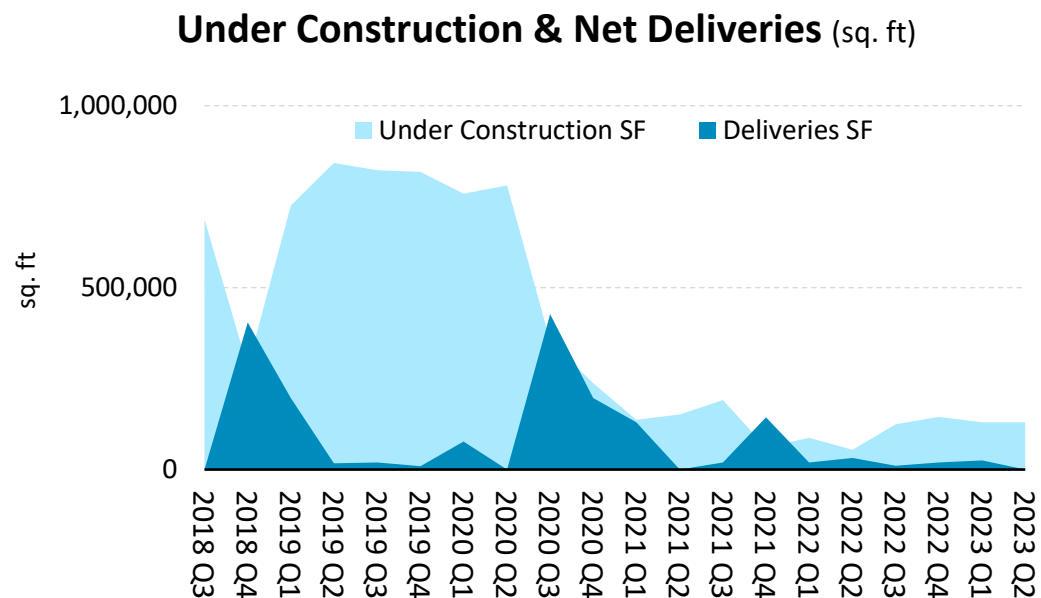
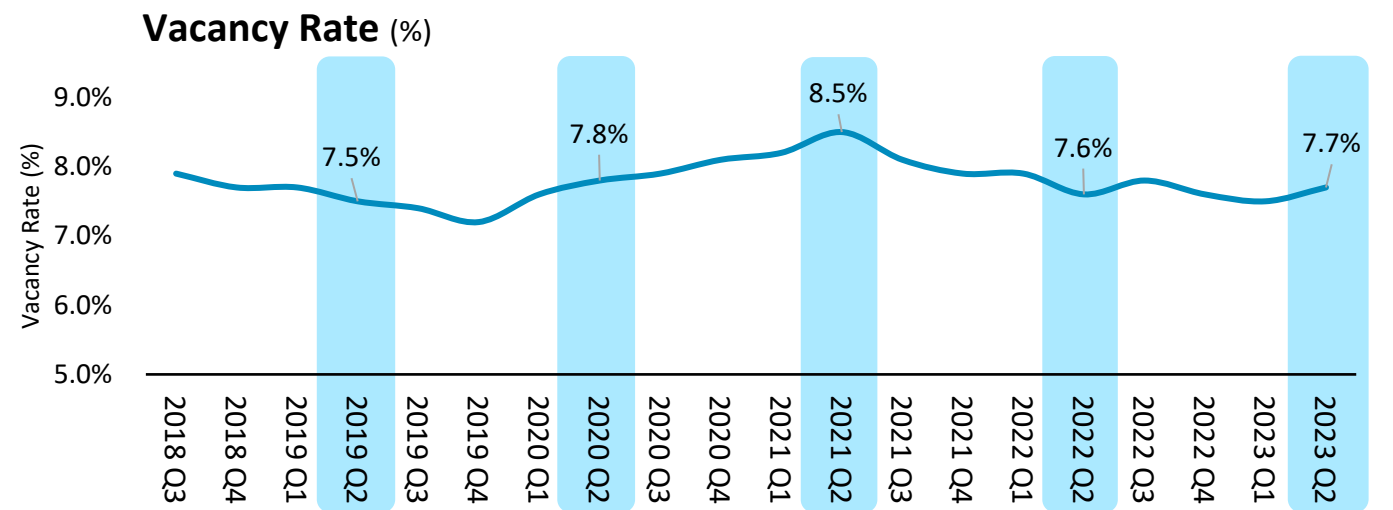
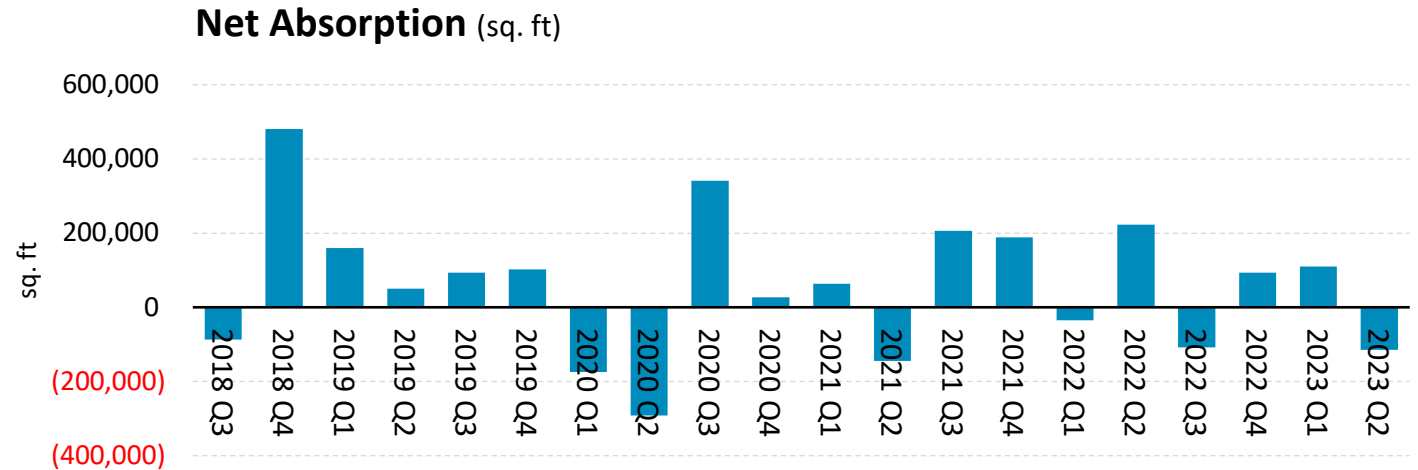
### Gross Rent (\$ per sq. ft)



## HAMPTON ROADS

### Local Market Indicator Dashboard

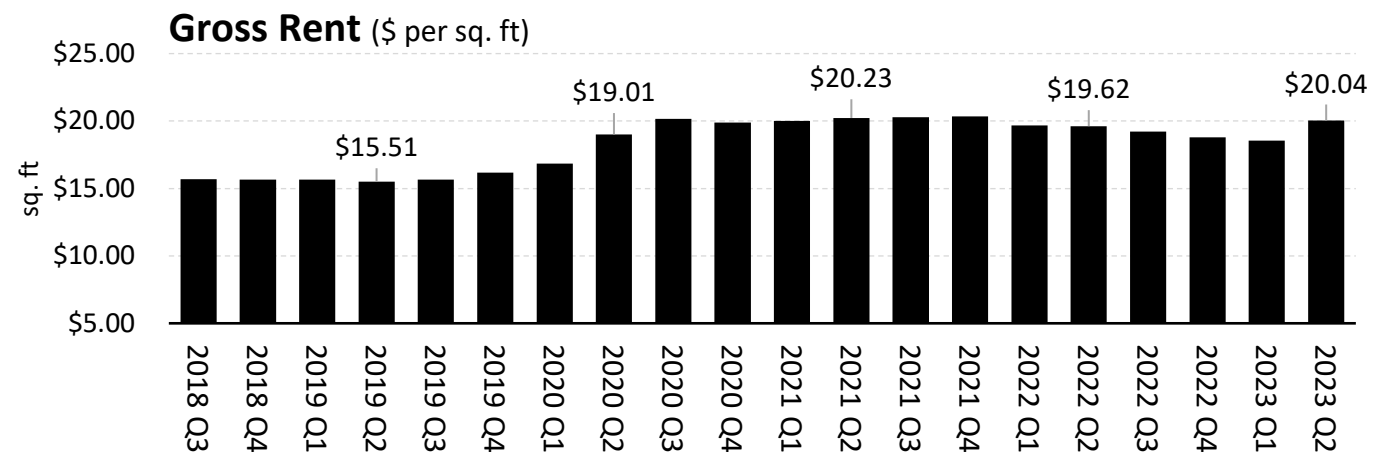
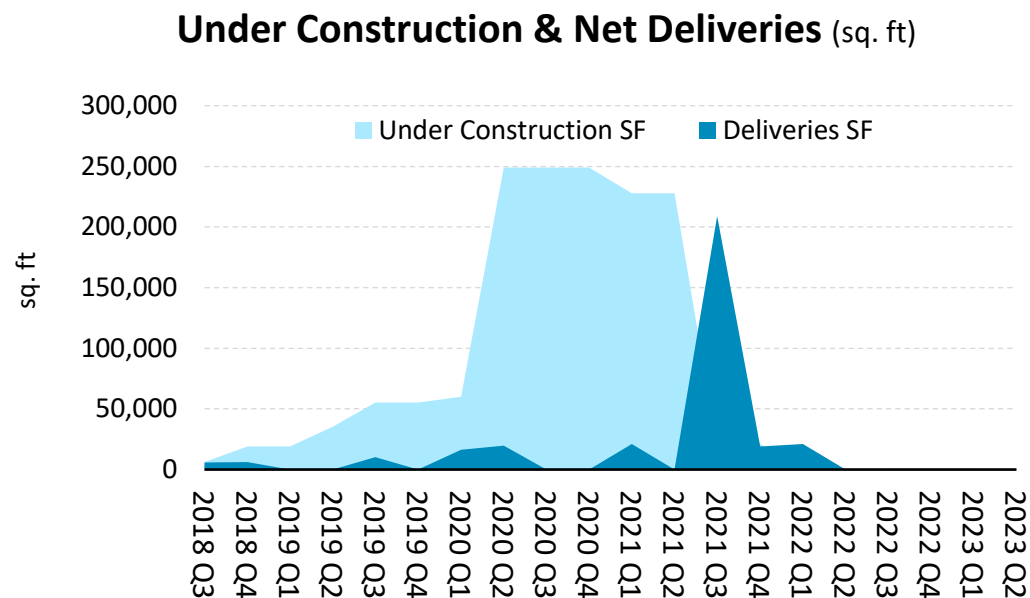
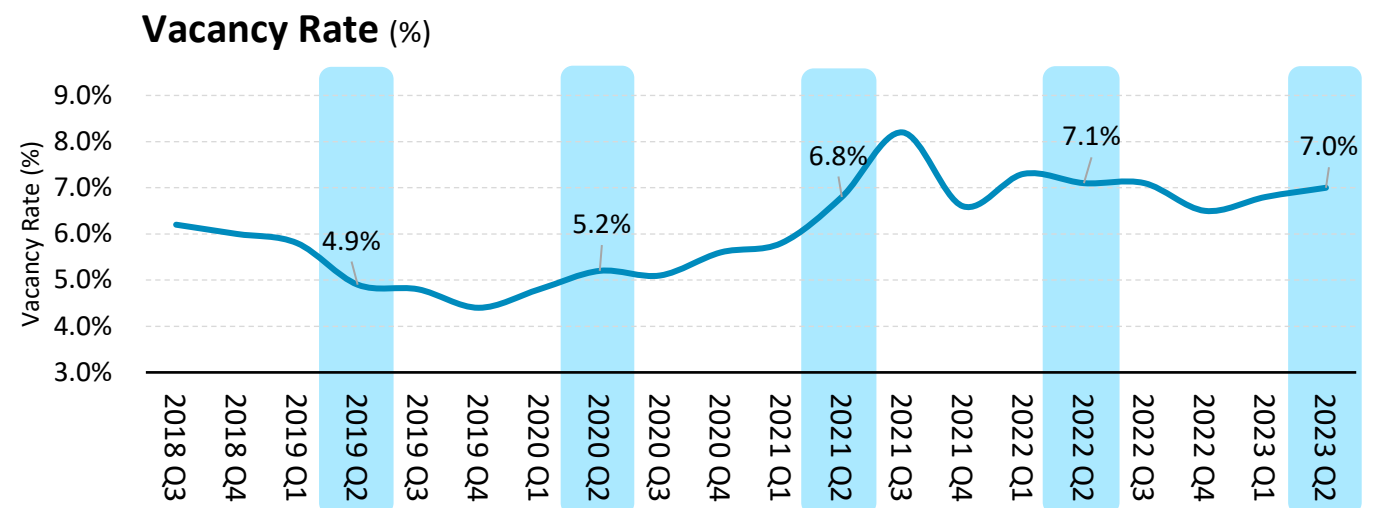
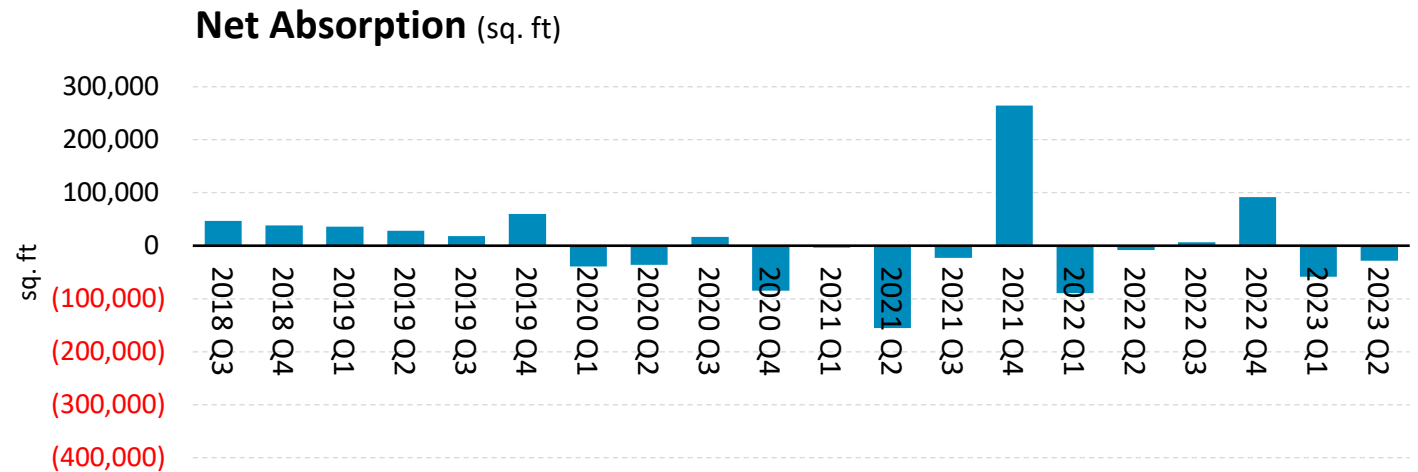
	Q2-2023	YoY Chg
Total Inventory (sq. ft, millions)	56.0	0.1% <i>% chg</i>
Vacancy Rate (%)	7.7%	0.1% <i>pct points</i>
Net Absorption (sq. ft)	(114,527)	-337,106 <i>sq. ft</i>
Avg Gross Rent (\$ per sq. ft)	\$22.04	\$1.28 <i>\$ per sq. ft</i>
Deliveries (sq. ft)	0	-32,066 <i>sq. ft</i>
Under Construction (sq. ft)	130,000	75,167 <i>sq. ft</i>



## ROANOKE MSA

### Local Market Indicator Dashboard

	Q2-2023	YoY Chg	
Total Inventory (sq. ft, millions)	15.5	0	% chg
Vacancy Rate (%)	7.0%	-0.1%	pct points
Net Absorption (sq. ft)	(28,698)	-20,210	sq. ft
Avg Gross Rent (\$ per sq. ft)	\$20.04	\$0.42	\$ per sq. ft
Deliveries (sq. ft)	0	\$ -	sq. ft
Under Construction (sq. ft)	0	0	sq. ft

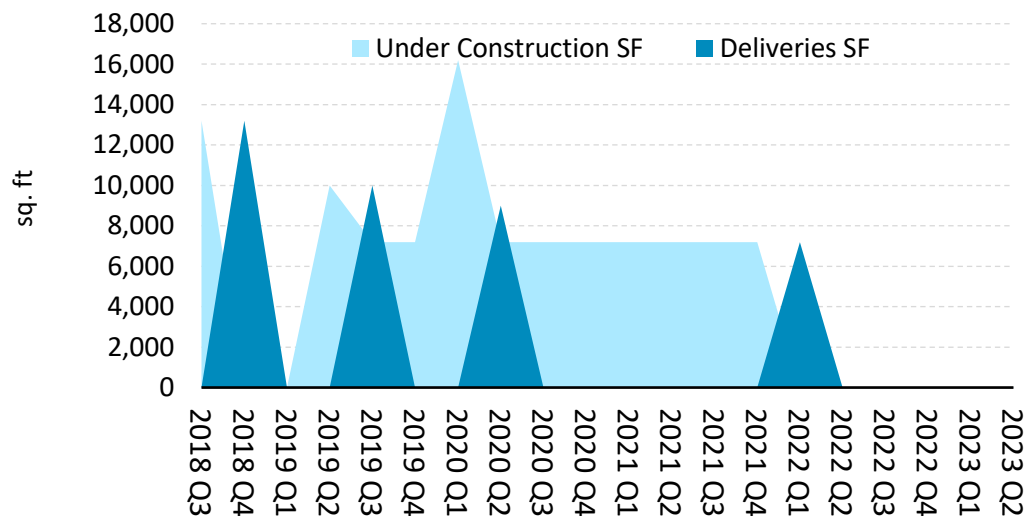


## LYNCHBURG MSA

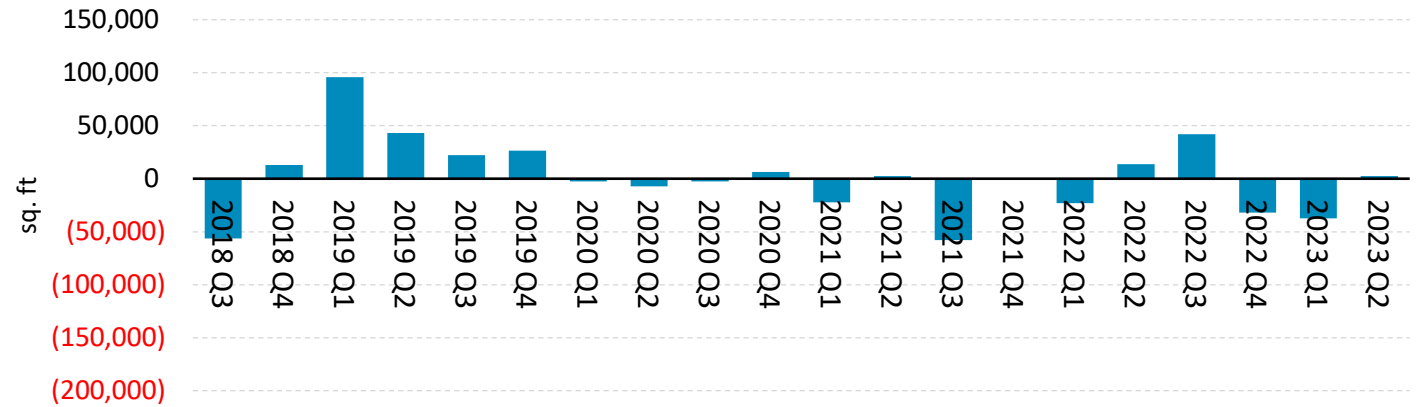
### Local Market Indicator Dashboard

	Q2-2023	YoY Chg	
Total Inventory (sq. ft, millions)	5.9	0	% chg
Vacancy Rate (%)	4.5%	0.5%	pct points
Net Absorption (sq. ft)	2,363	-11,270	sq. ft
Avg Gross Rent (\$ per sq. ft)	\$19.36	\$0.17	\$ per sq. ft
Deliveries (sq. ft)	0	0	sq. ft
Under Construction (sq. ft)	0	0	sq. ft

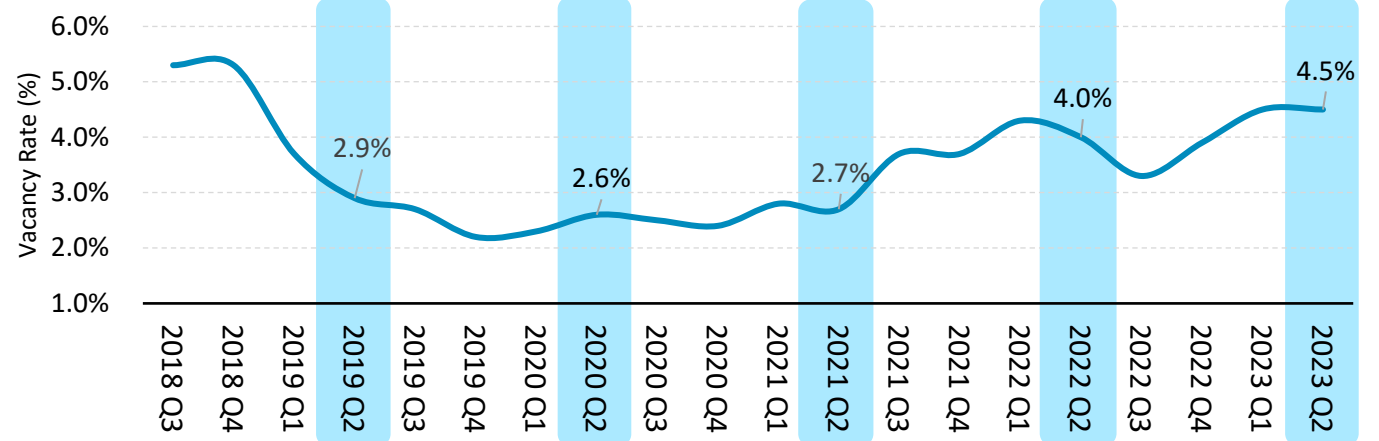
### Under Construction & Net Deliveries (sq. ft)



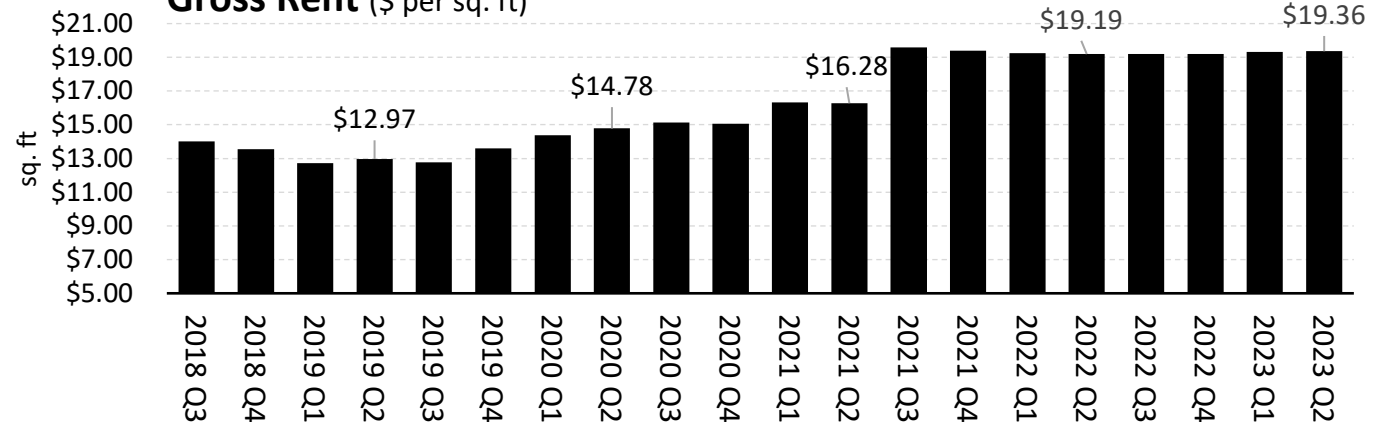
### Net Absorption (sq. ft)



### Vacancy Rate (%)



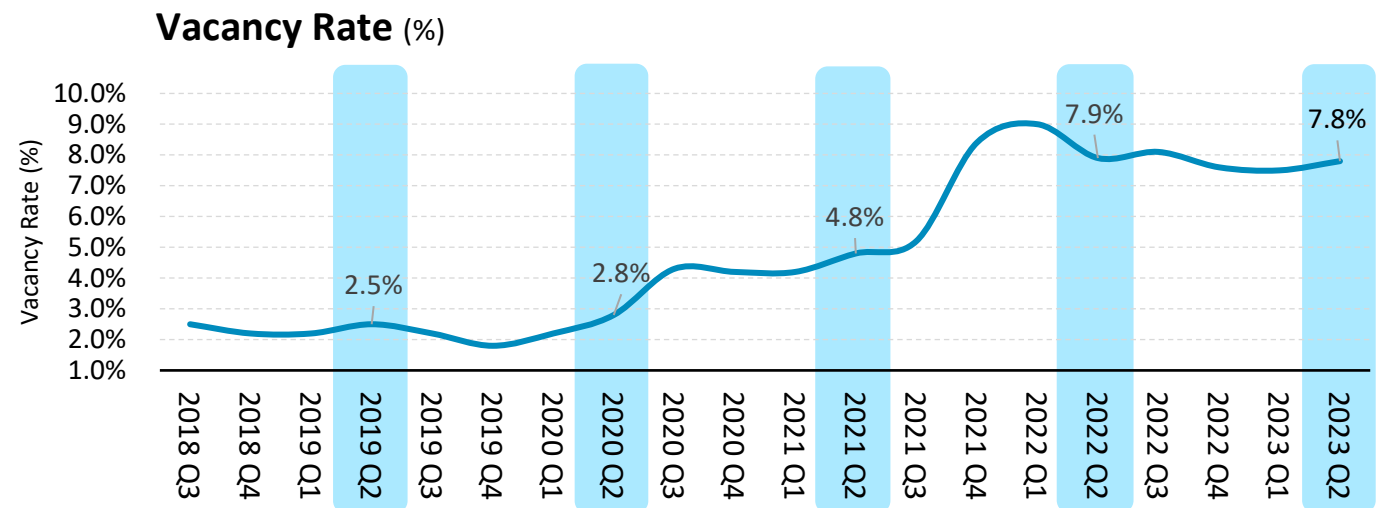
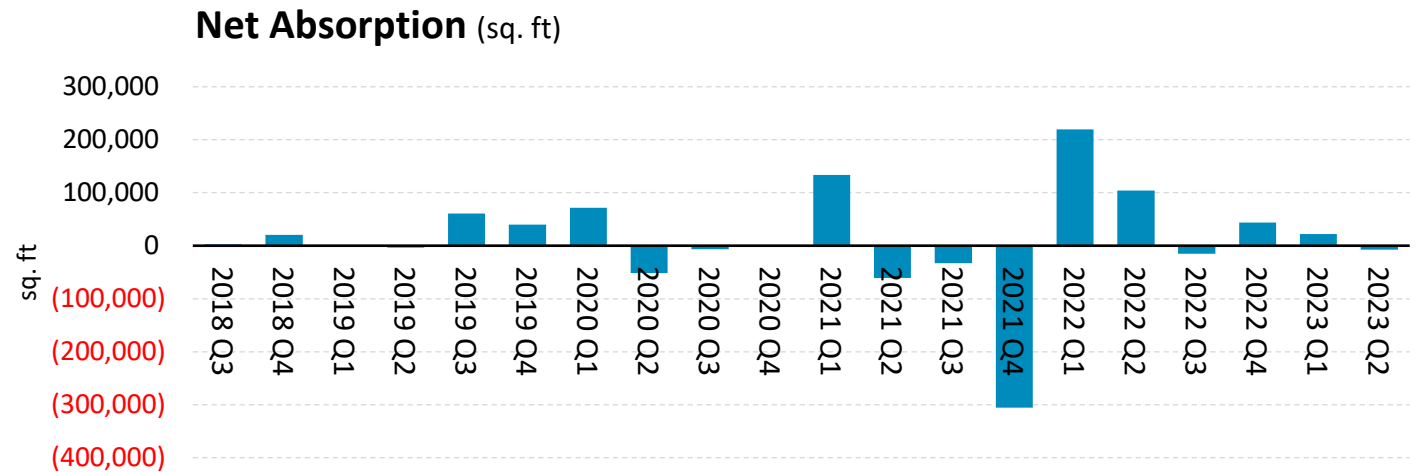
### Gross Rent (\$ per sq. ft)



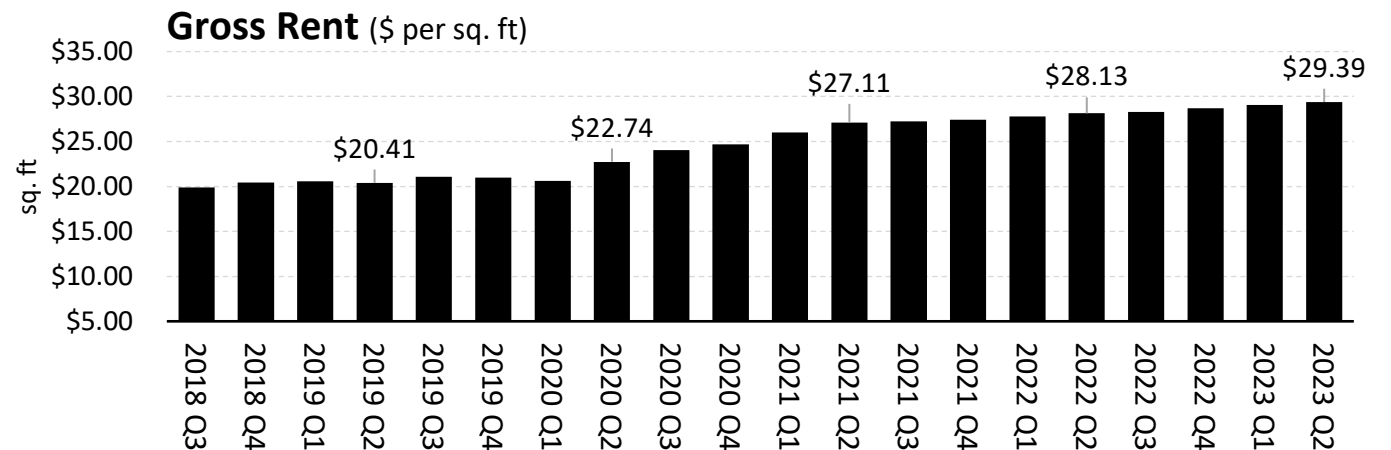
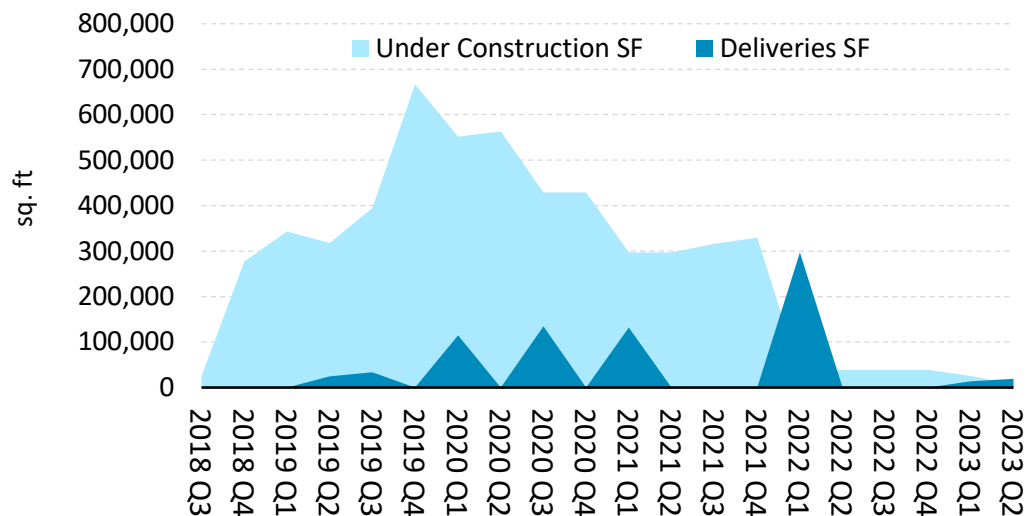
## CHARLOTTESVILLE MSA

### Local Market Indicator Dashboard

	Q2-2023	YoY Chg
Total Inventory (sq. ft, millions)	9.7	0.3% <i>% chg</i>
Vacancy Rate (%)	7.8%	-0.1% <i>pct points</i>
Net Absorption (sq. ft)	(7,310)	-111,577 <i>sq. ft</i>
Avg Gross Rent (\$ per sq. ft)	\$29.39	\$1.26 <i>\$ per sq. ft</i>
Deliveries (sq. ft)	18,999	18,999 <i>sq. ft</i>
Under Construction (sq. ft)	6,500	-32,689 <i>sq. ft</i>



### Under Construction & Net Deliveries (sq. ft)

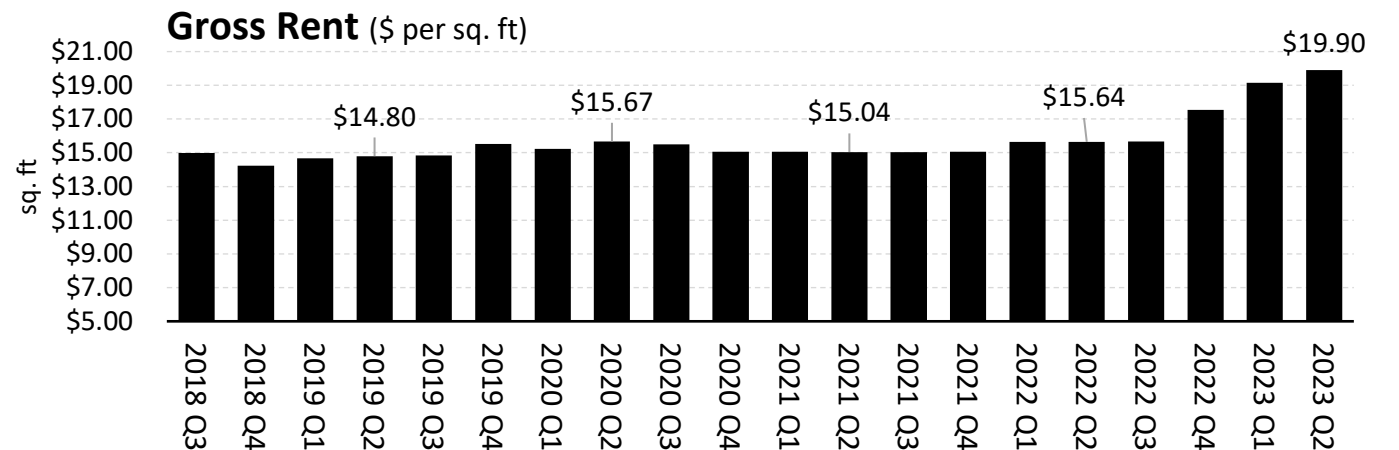
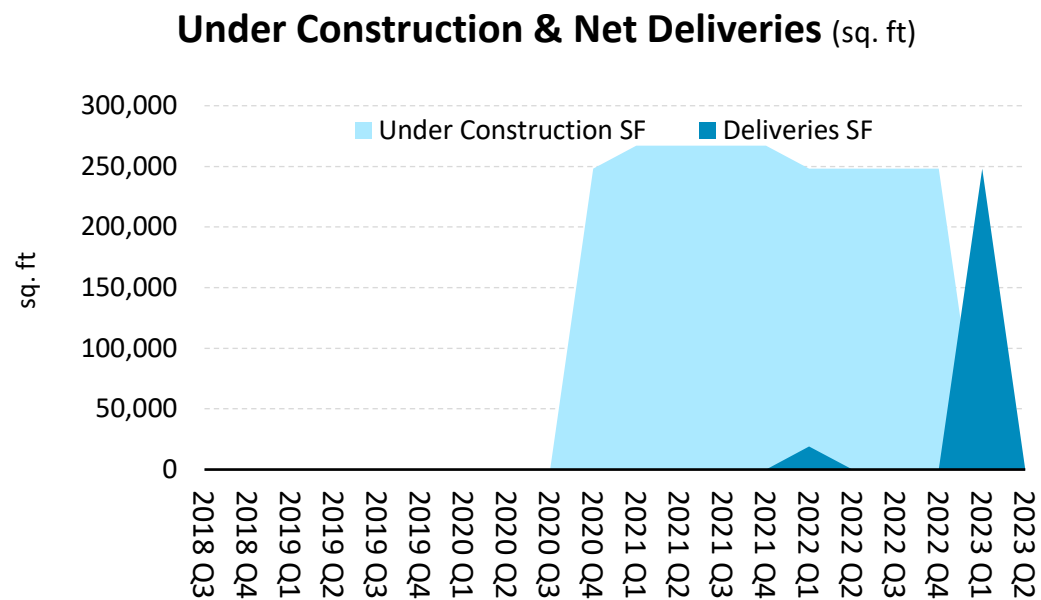
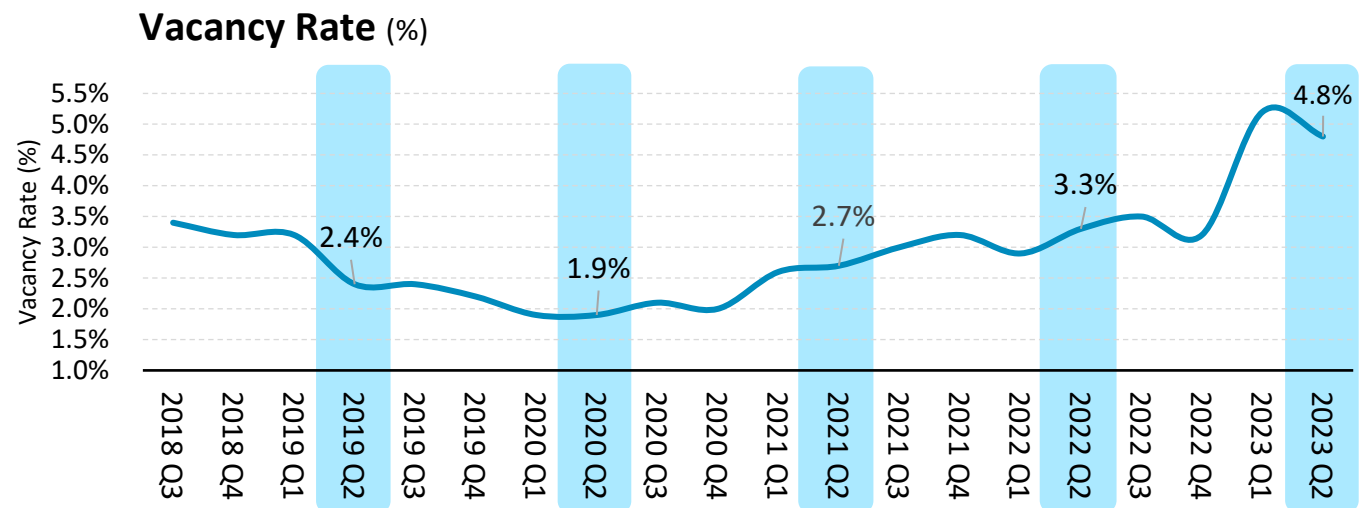
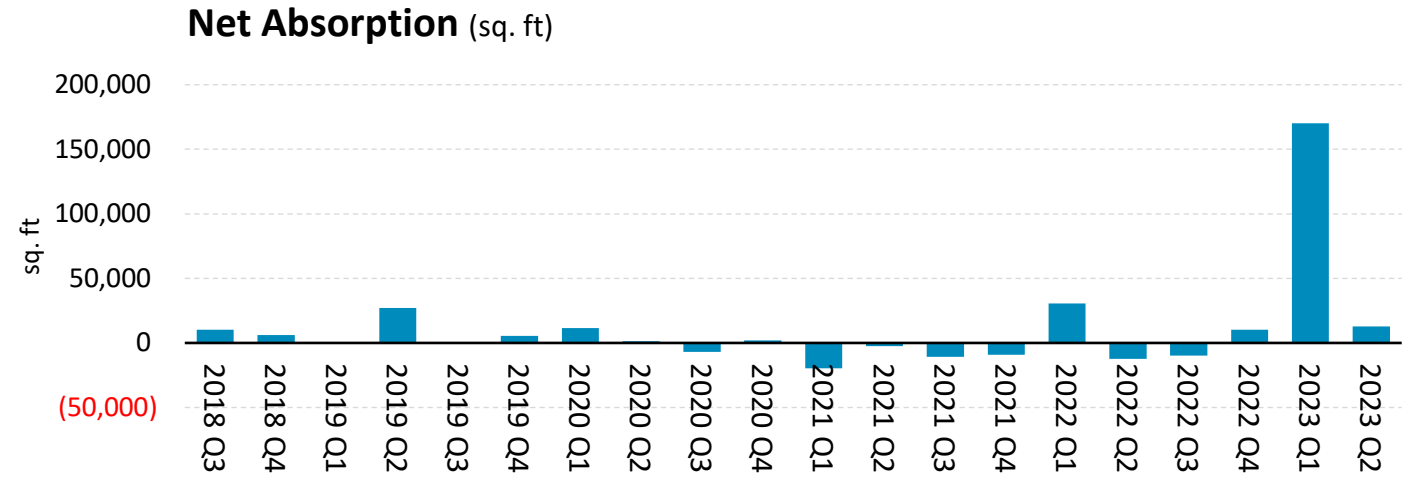


# Office Market - MSA Trends

## BLACKSBURG MSA

### Local Market Indicator Dashboard

	Q2-2023	YoY Chg	
Total Inventory (sq. ft, millions)	3.6	7.3%	% chg
Vacancy Rate (%)	4.8%	1.5%	pct points
Net Absorption (sq. ft)	12,936	25,296	sq. ft
Avg Gross Rent (\$ per sq. ft)	\$19.90	\$4.26	\$ per sq. ft
Deliveries (sq. ft)	0	0	sq. ft
Under Construction (sq. ft)	0	-248,075	sq. ft

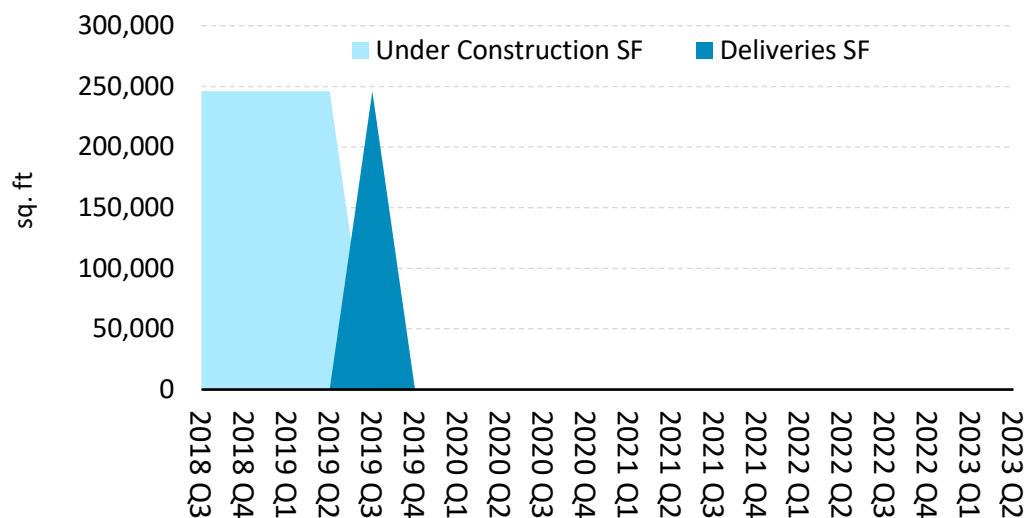


## WINCHESTER MSA

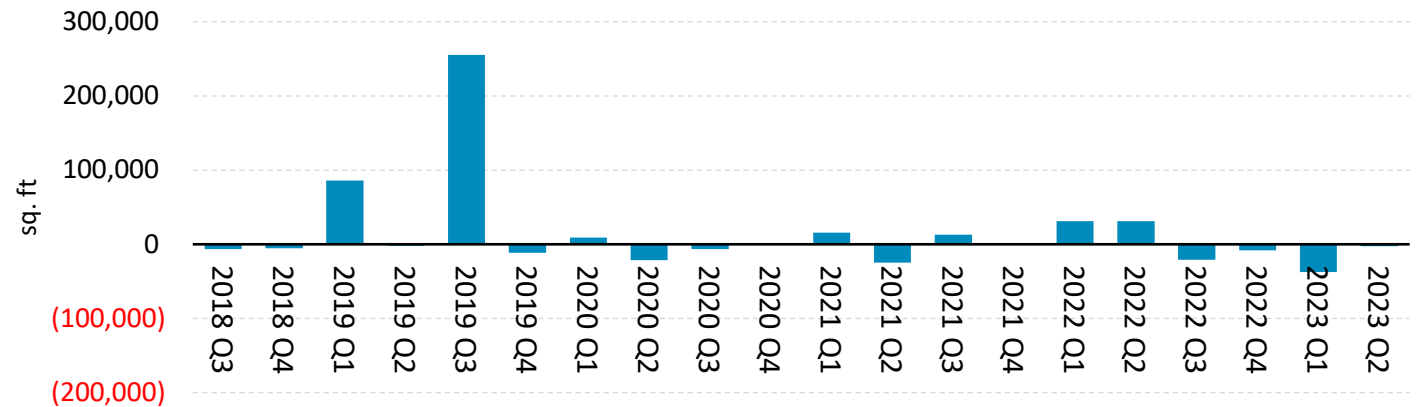
### Local Market Indicator Dashboard

	Q2-2023	YoY Chg	
Total Inventory (sq. ft, millions)	<b>3.5</b>	<b>0</b>	% chg
Vacancy Rate (%)	<b>3.1%</b>	<b>2.0%</b>	pct points
Net Absorption (sq. ft)	<b>(2,391)</b>	<b>-33,671</b>	sq. ft
Avg Gross Rent (\$ per sq. ft)	<b>\$22.59</b>	<b>\$1.38</b>	\$ per sq. ft
Deliveries (sq. ft)	<b>0</b>	<b>0</b>	sq. ft
Under Construction (sq. ft)	<b>0</b>	<b>0</b>	sq. ft

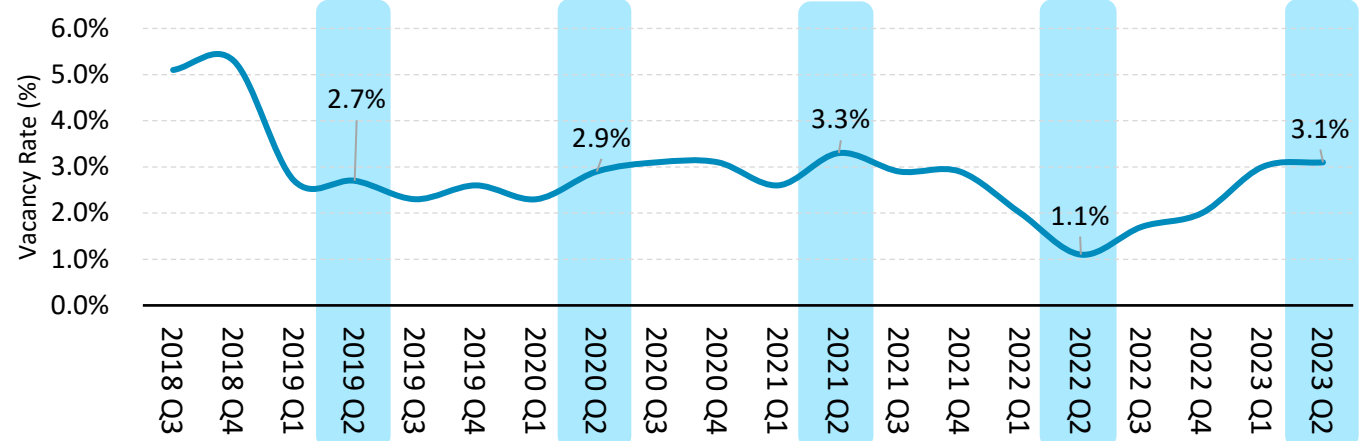
### Under Construction & Net Deliveries (sq. ft)



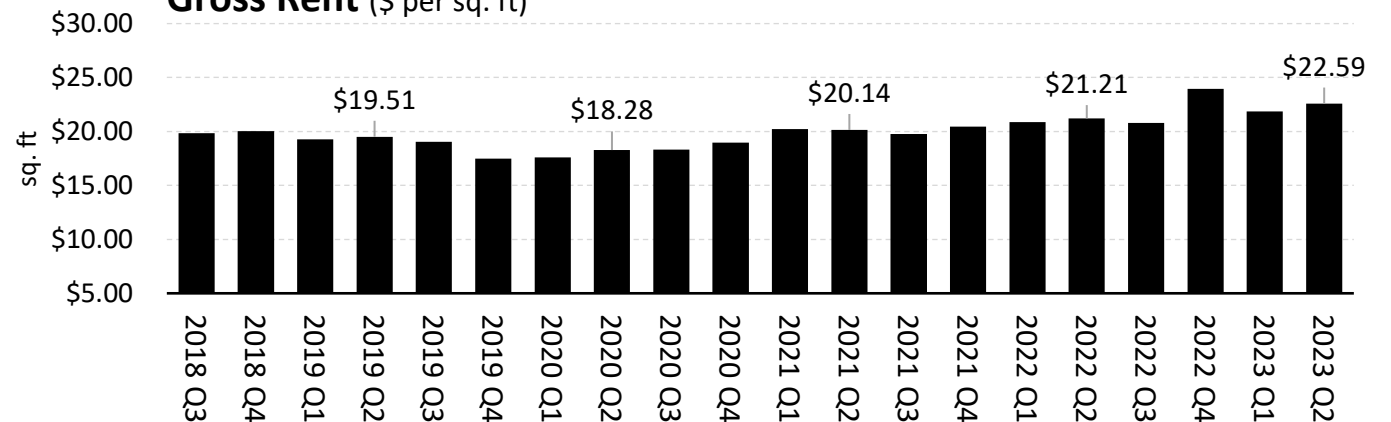
### Net Absorption (sq. ft)



### Vacancy Rate (%)



### Gross Rent (\$ per sq. ft)

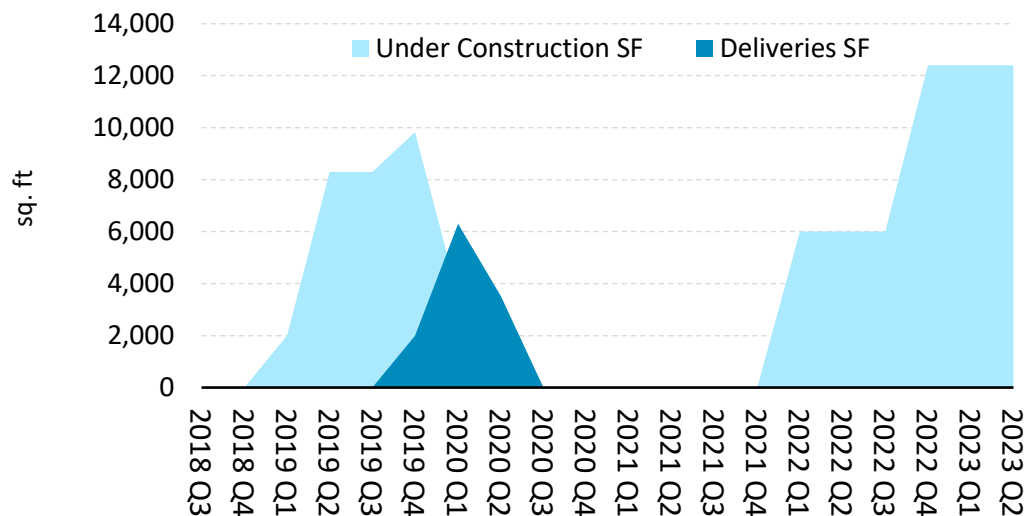


## HARRISONBURG MSA

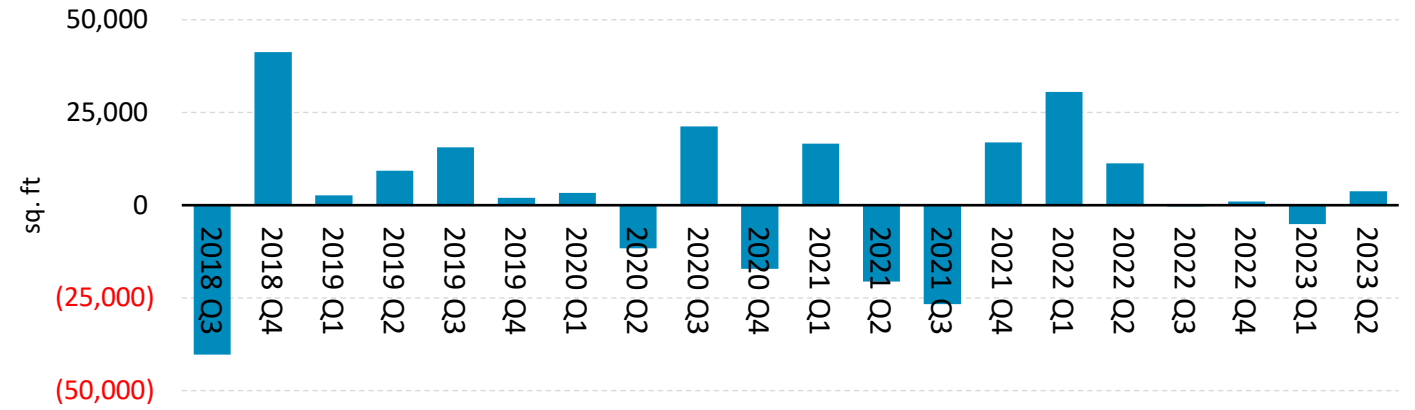
### Local Market Indicator Dashboard

	Q2-2023	YoY Chg	
Total Inventory (sq. ft, millions)	<b>2.3</b>	<b>0</b>	% chg
Vacancy Rate (%)	<b>3.9%</b>	<b>0.1%</b>	pct points
Net Absorption (sq. ft)	<b>3,782</b>	<b>-7,494</b>	sq. ft
Avg Gross Rent (\$ per sq. ft)	<b>\$17.07</b>	<b>\$0.24</b>	\$ per sq. ft
Deliveries (sq. ft)	<b>0</b>	<b>0</b>	sq. ft
Under Construction (sq. ft)	<b>12,400</b>	<b>6,400</b>	sq. ft

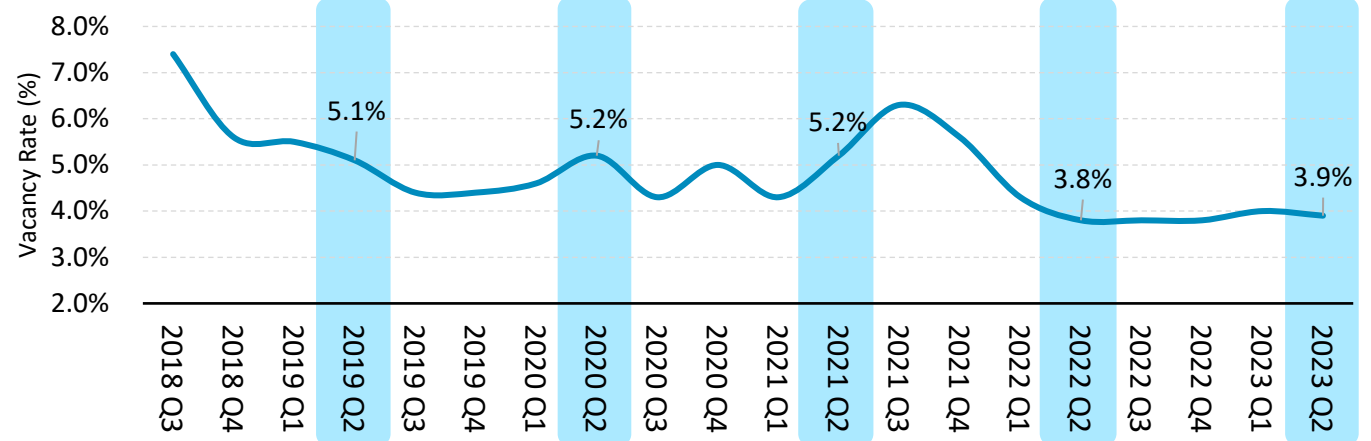
### Under Construction & Net Deliveries (sq. ft)



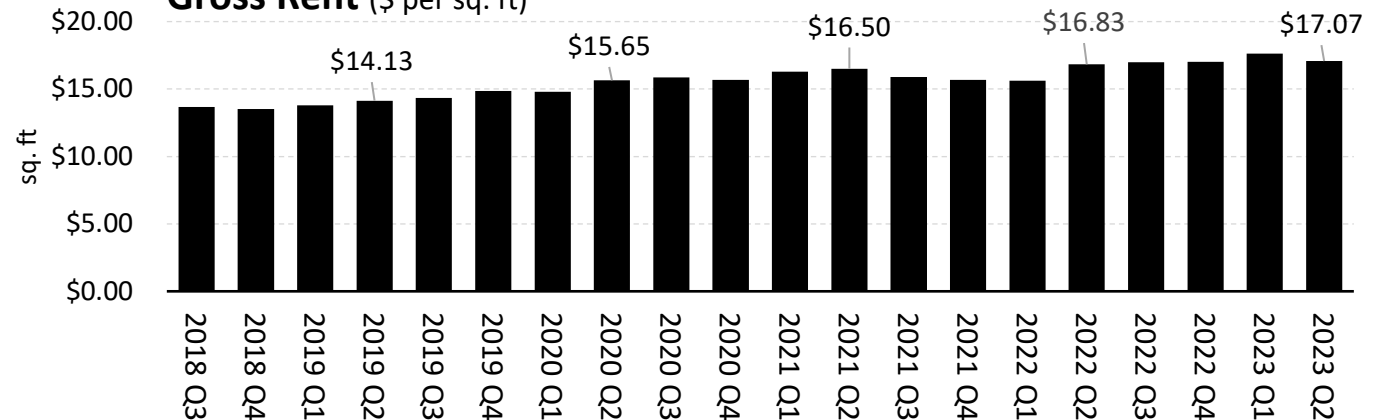
### Net Absorption (sq. ft)



### Vacancy Rate (%)



### Gross Rent (\$ per sq. ft)





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Data and analysis provided by Virginia REALTORS® Chief Economist.

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