



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.

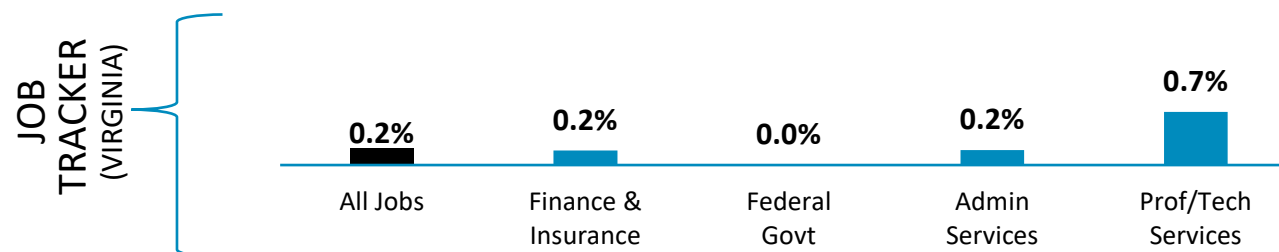
VIRGINIA (Statewide) Market Indicator Dashboard

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

Economic Indicator Dashboard

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

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



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Virginia Office Market

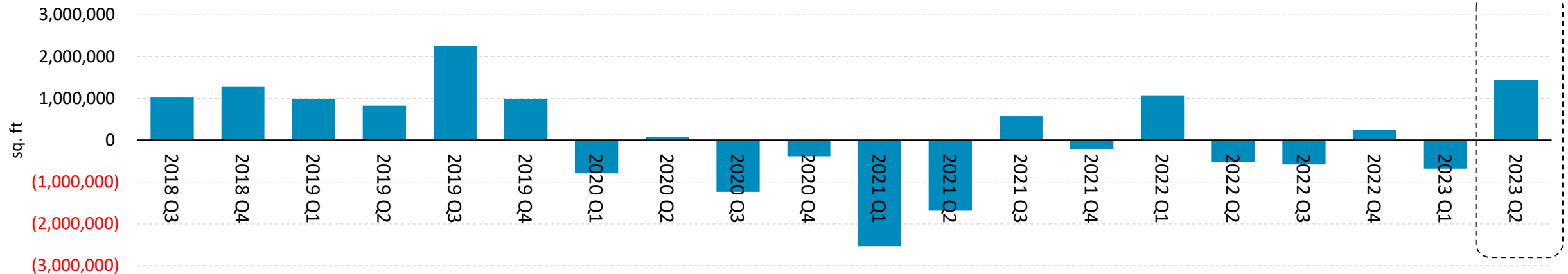
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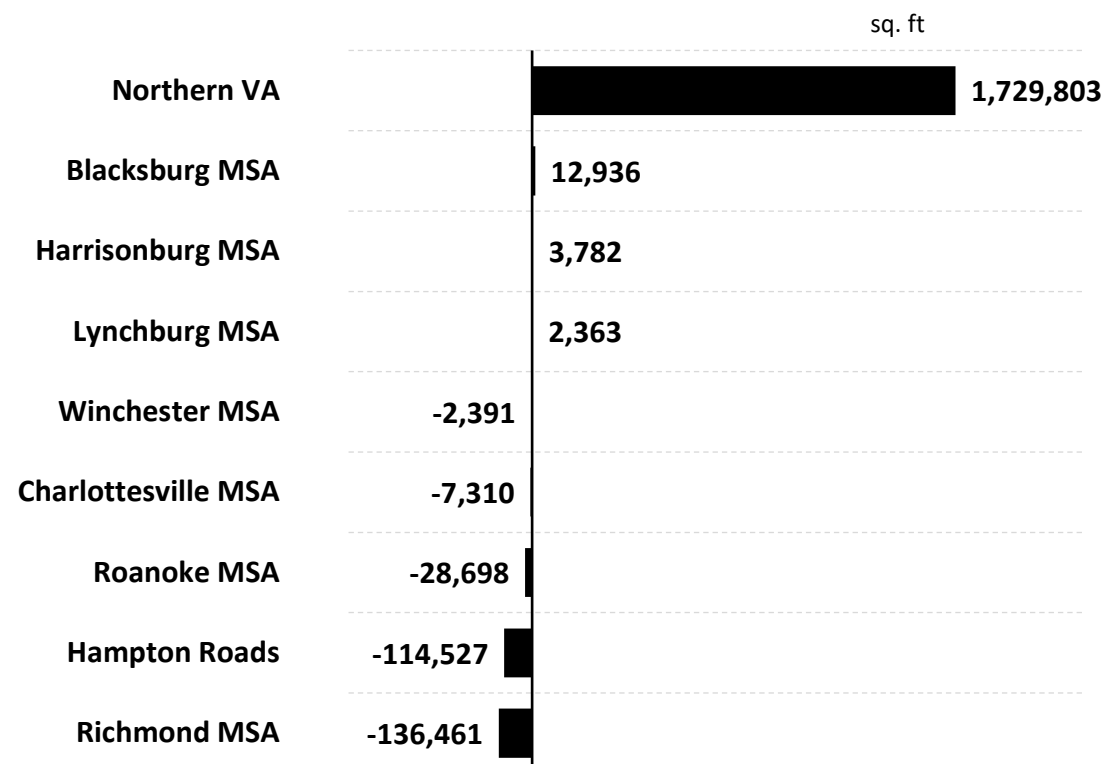
Office Market - Absorption & Construction Trends

VIRGINIA (Statewide)

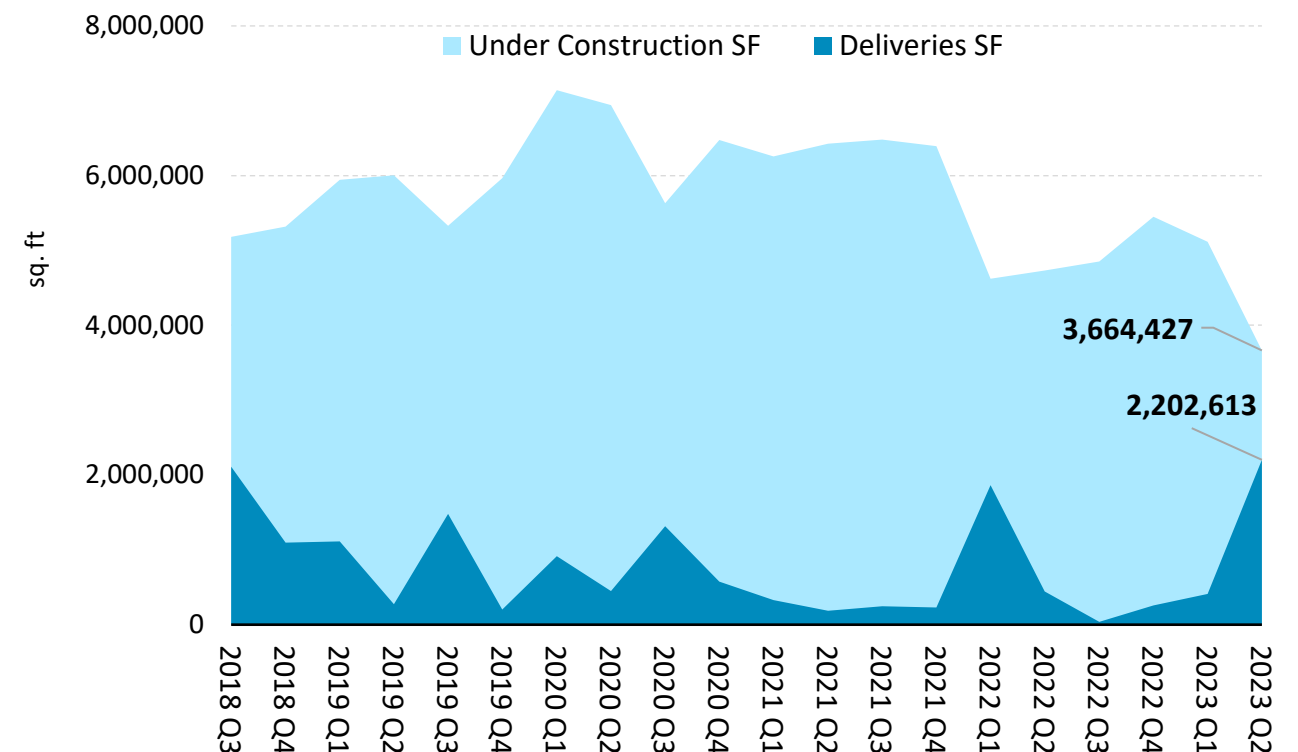
Net Absorption (sq. ft)



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

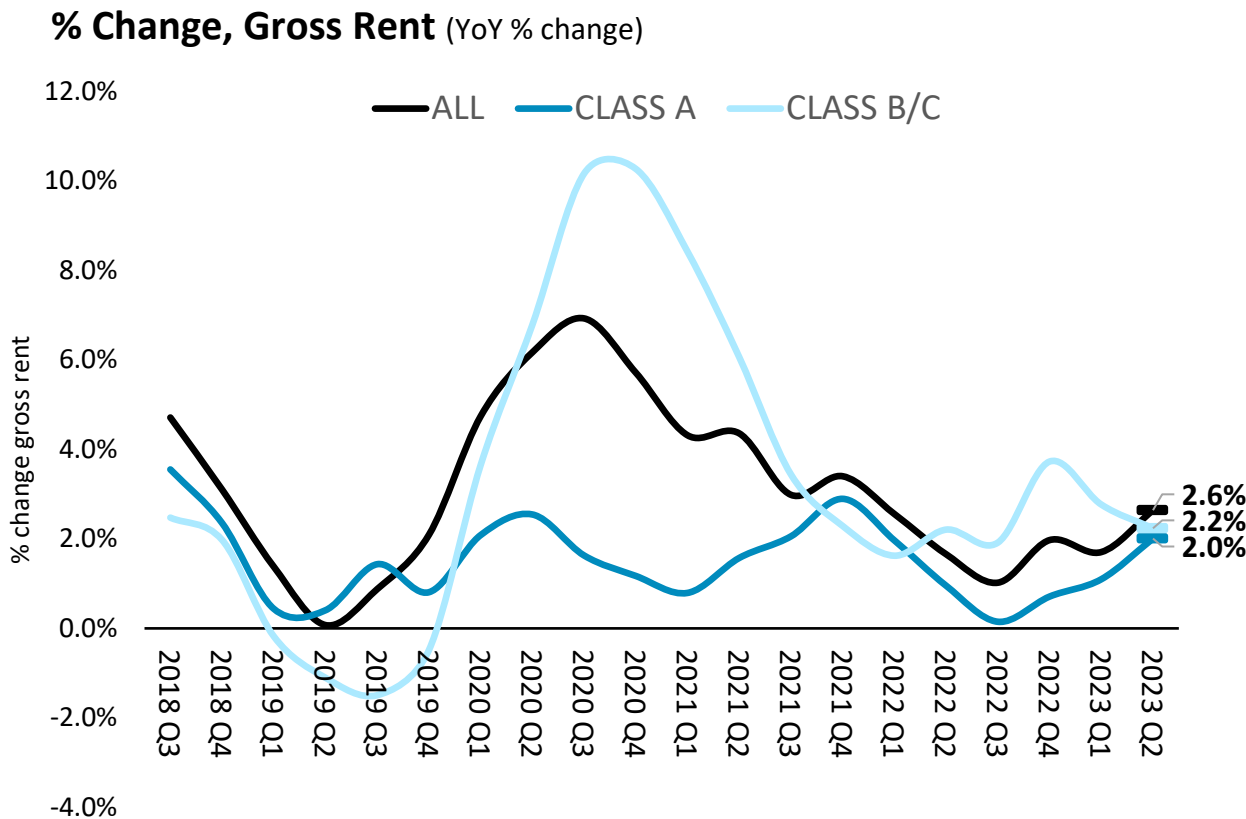
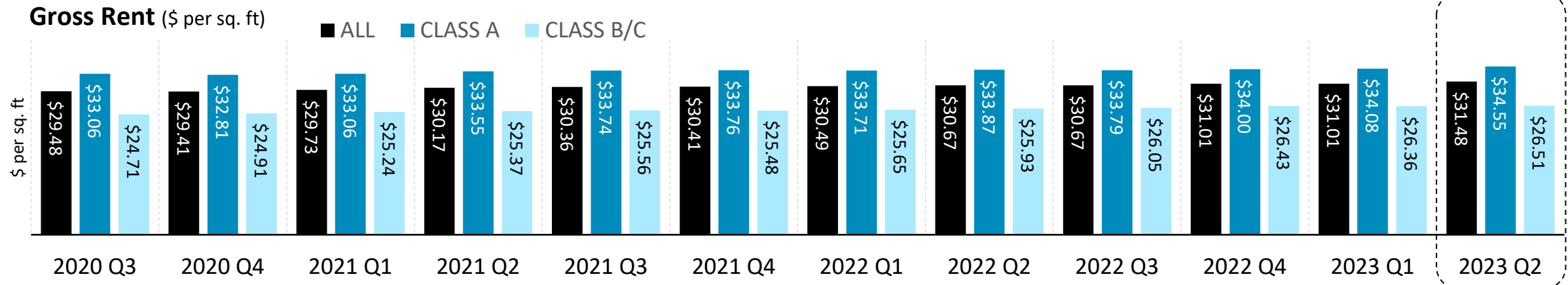


Under Construction & Net Deliveries (sq. ft)

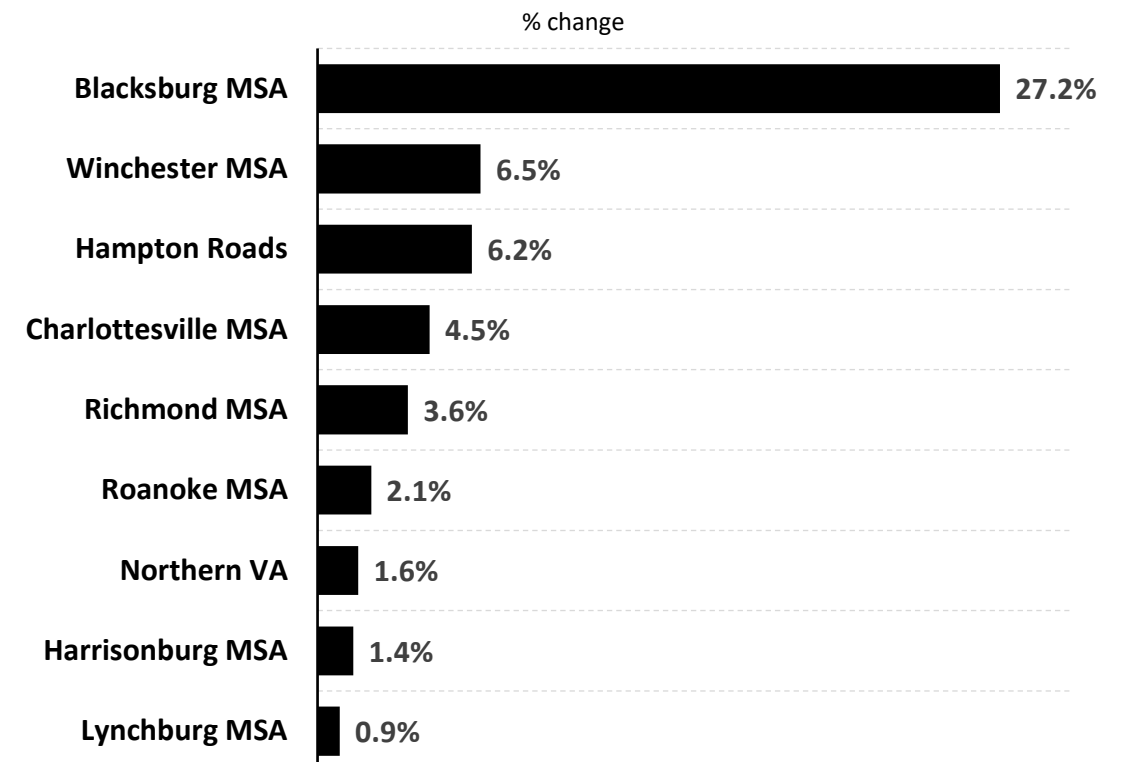


Office Market - Rent Trends

VIRGINIA (Statewide)

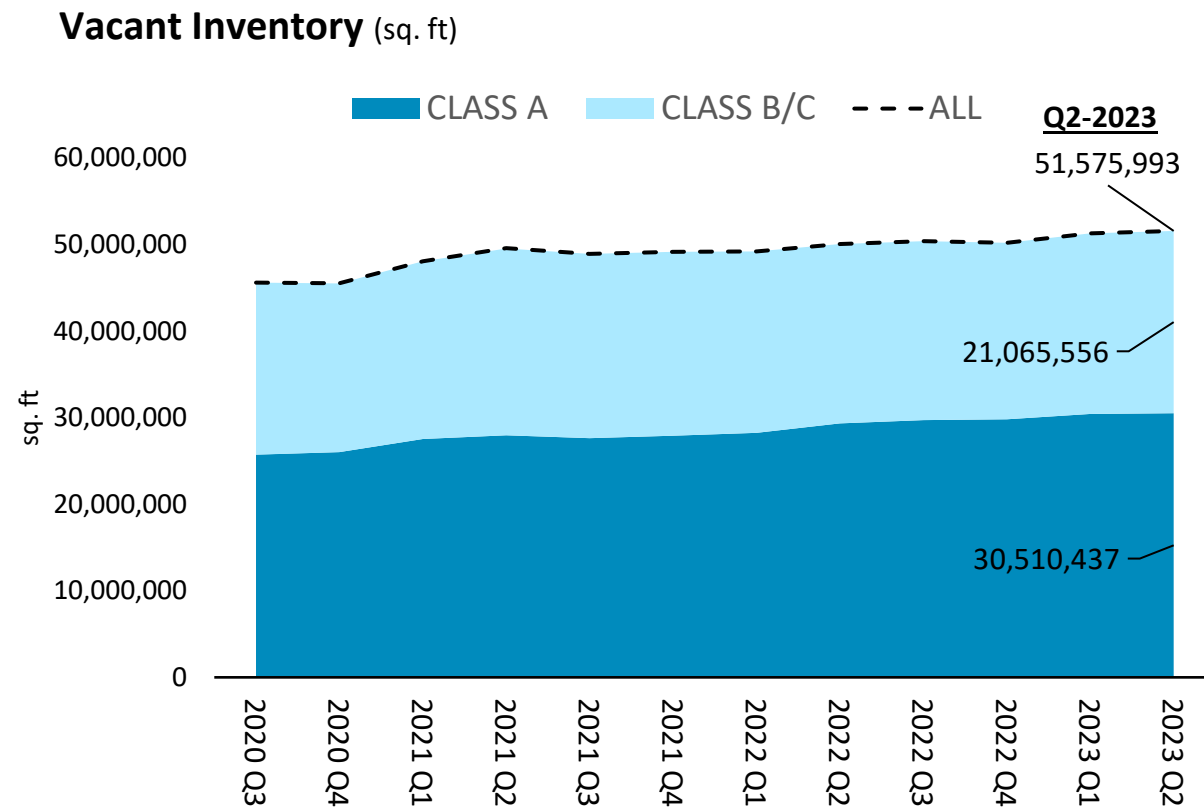
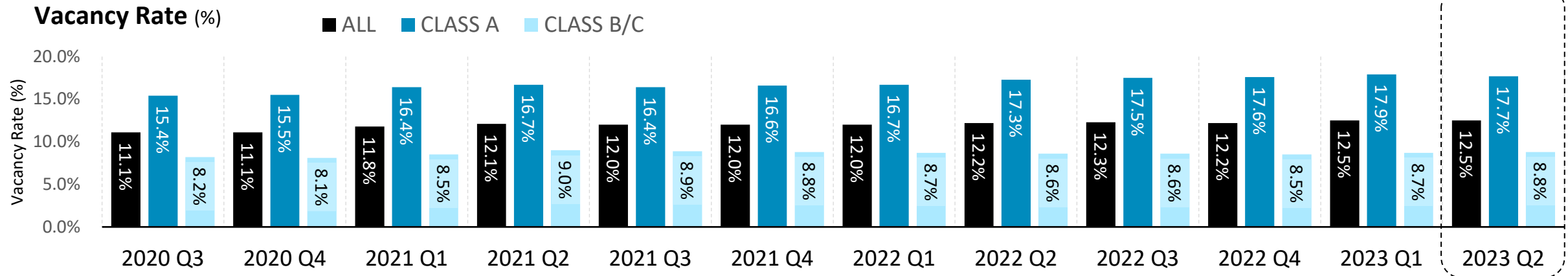


Q2-2023 by MSA: % Change, Gross Rent (YoY % change)

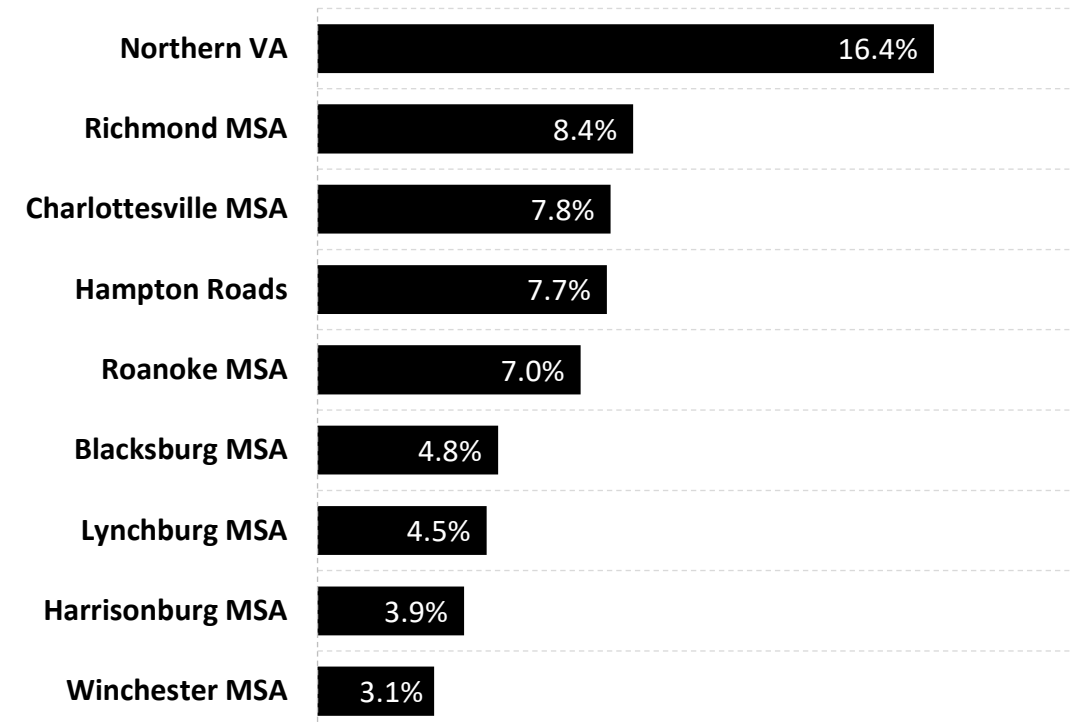


Office Market - Vacancy Trends

VIRGINIA (Statewide)



Q2-2023 Office Vacancy Rate by MSA



MSA TRENDS

METROPOLITAN STATISTICAL AREA

Q2

2023

Virginia
REALTORS®

OFFICE
Market Report



Snapshot of Office Market Conditions Around Virginia

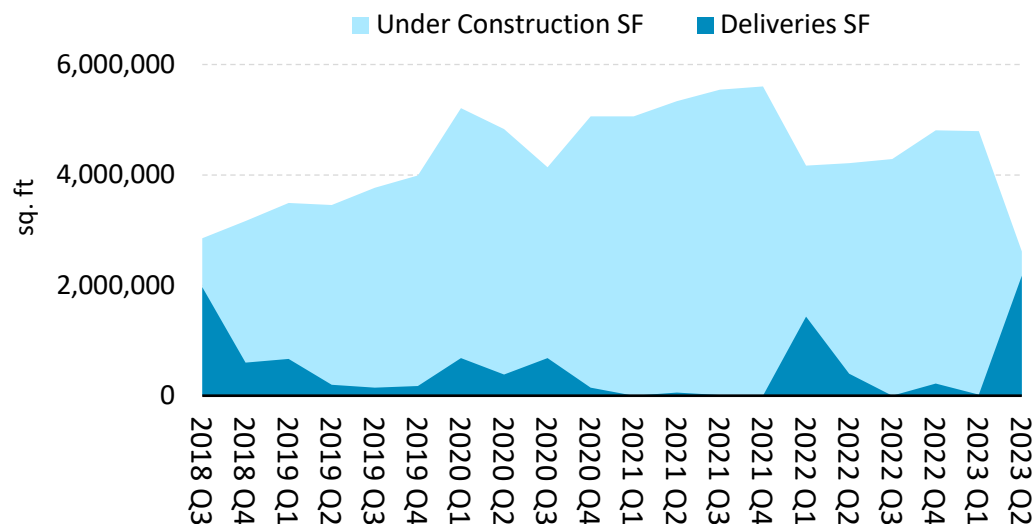
Office Market - MSA Trends

NORTHERN VIRGINIA

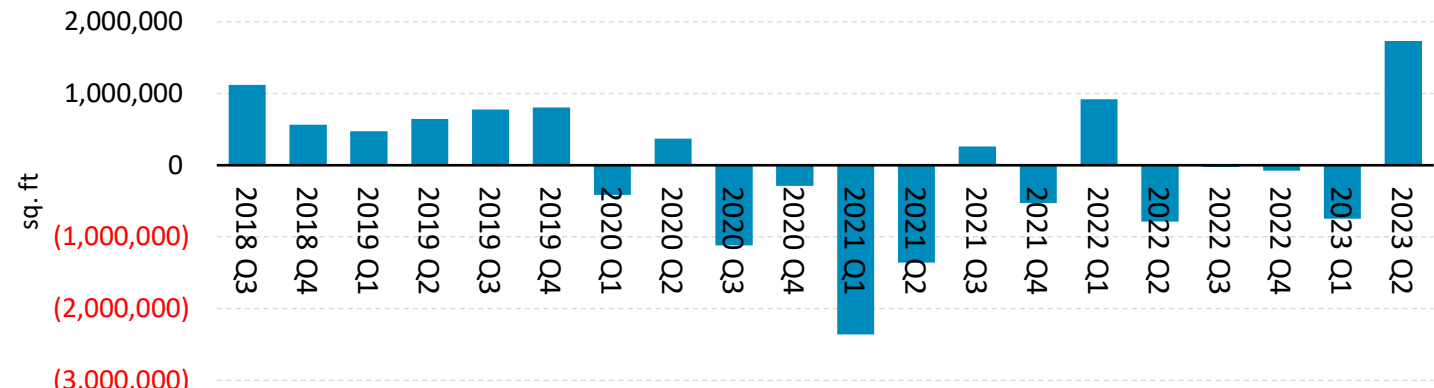
Local Market Indicator Dashboard

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

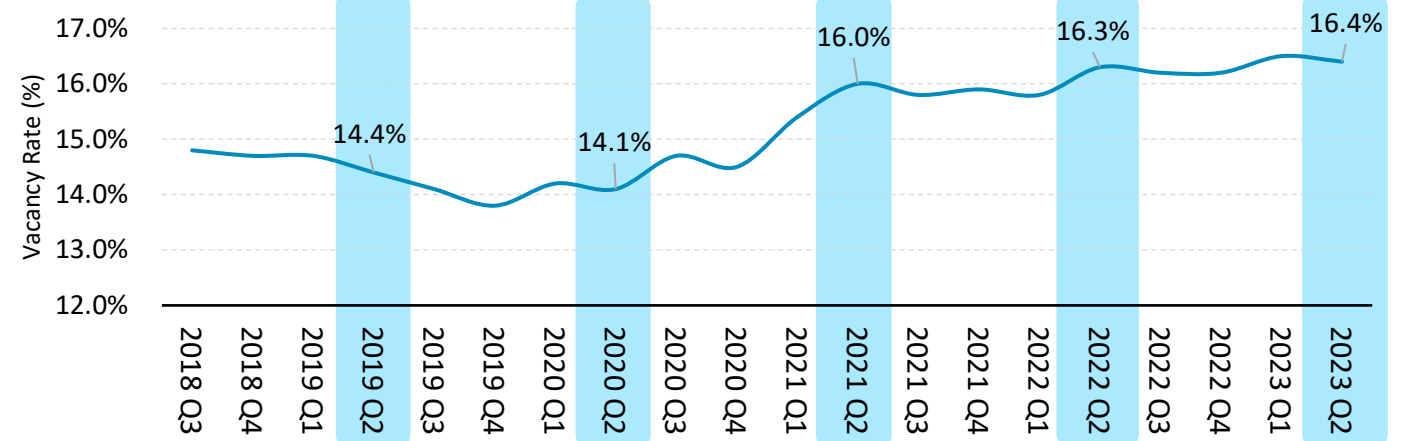
Under Construction & Net Deliveries (sq. ft)



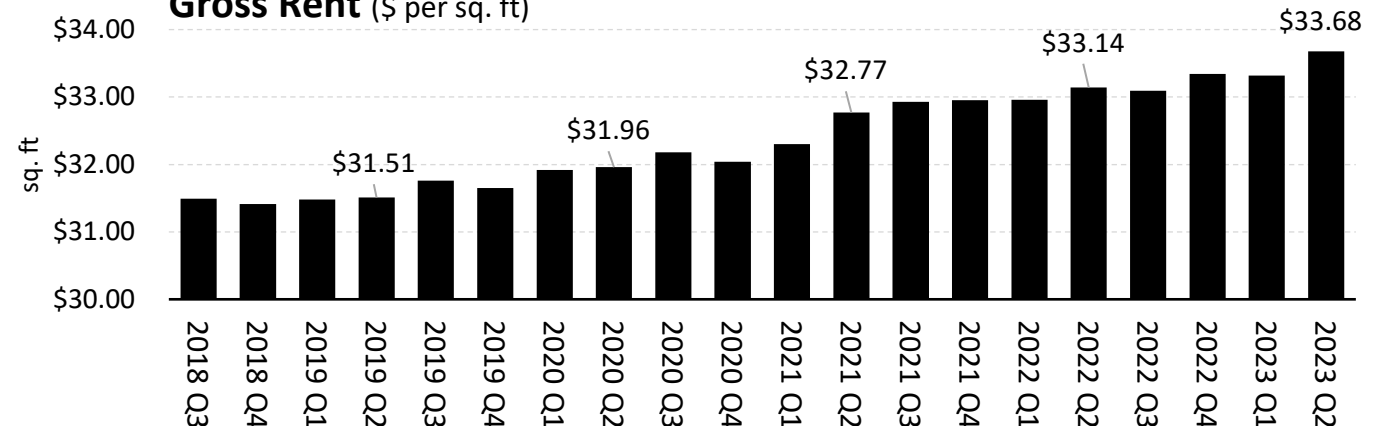
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)



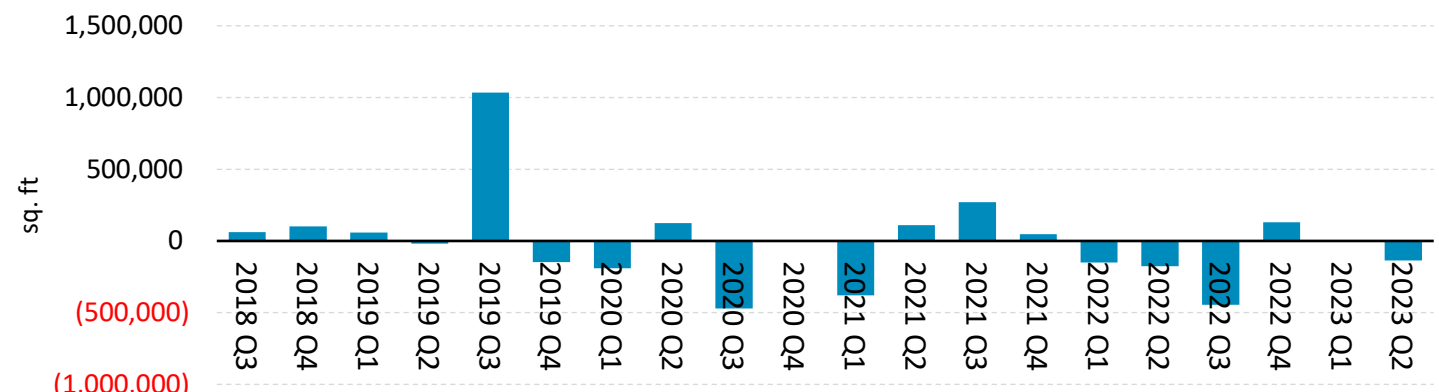
Office Market - MSA Trends

RICHMOND MSA

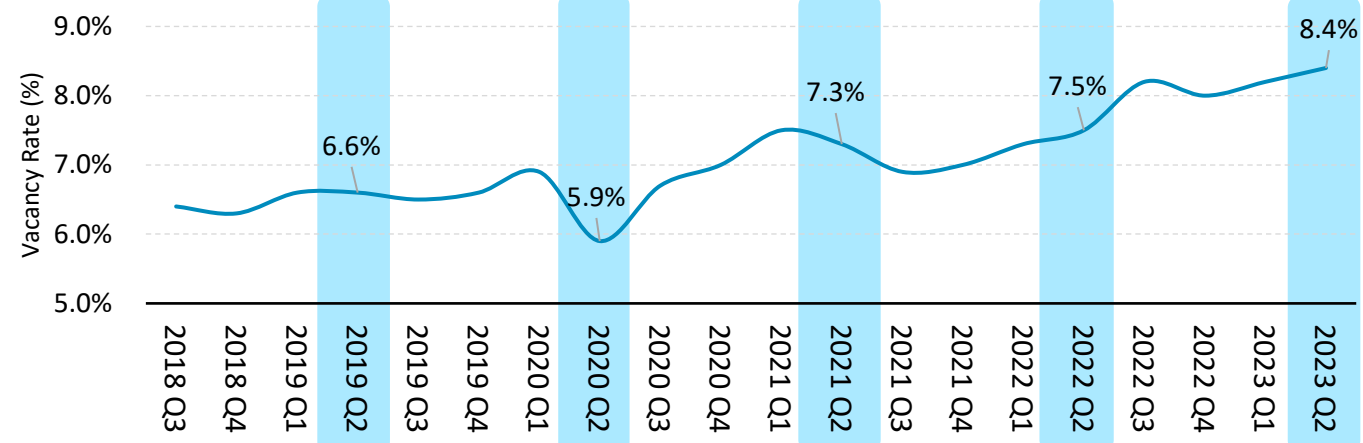
Local Market Indicator Dashboard

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

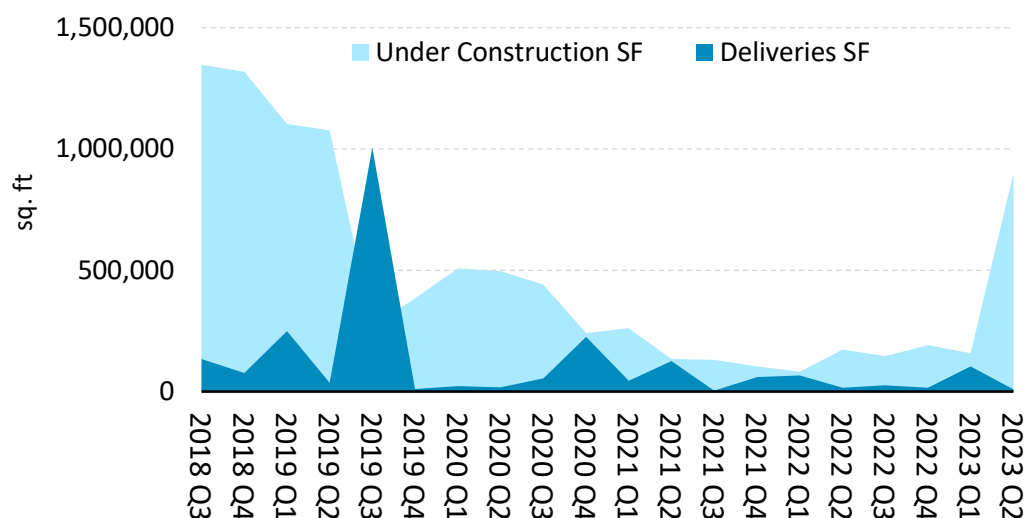
Net Absorption (sq. ft)



Vacancy Rate (%)



Under Construction & Net Deliveries (sq. ft)



Gross Rent (\$ per sq. ft)



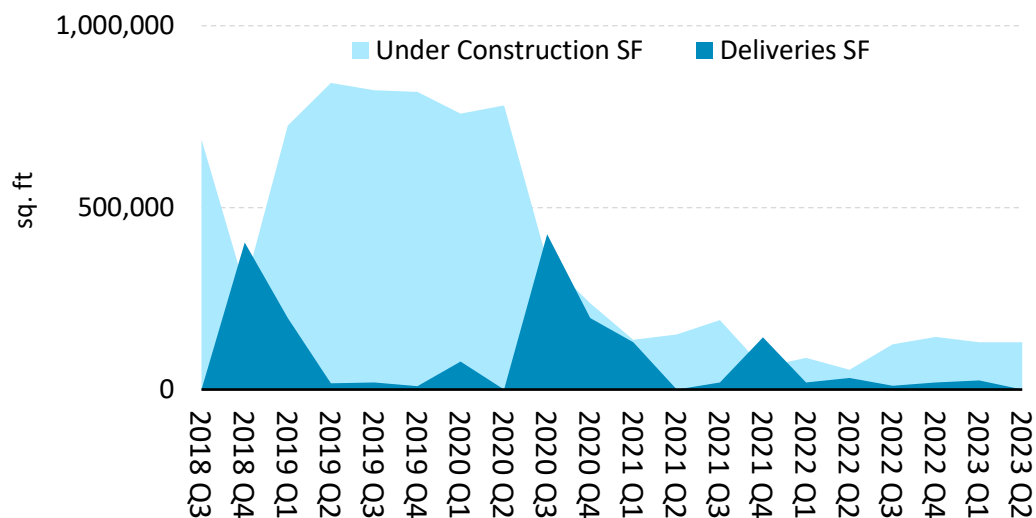
Office Market - MSA Trends

HAMPTON ROADS

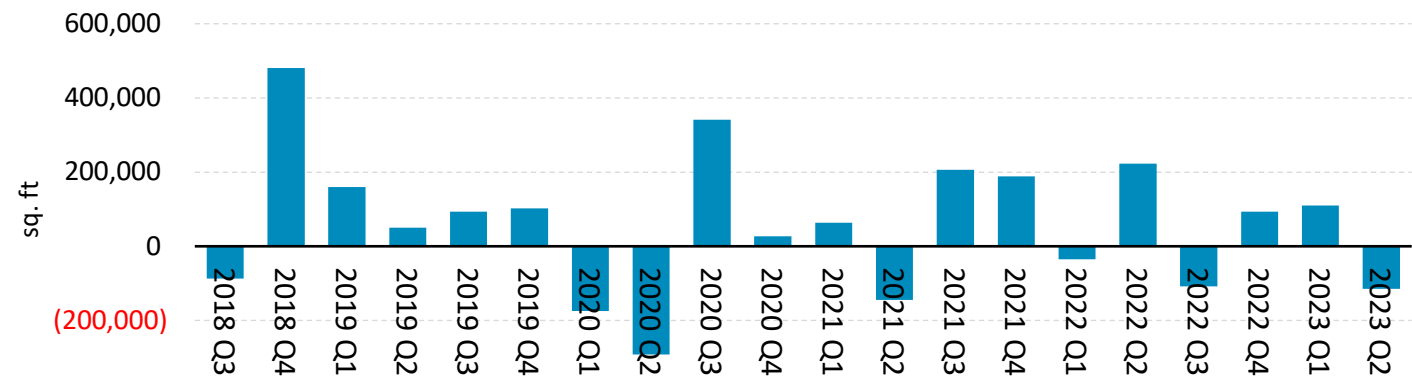
Local Market Indicator Dashboard

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

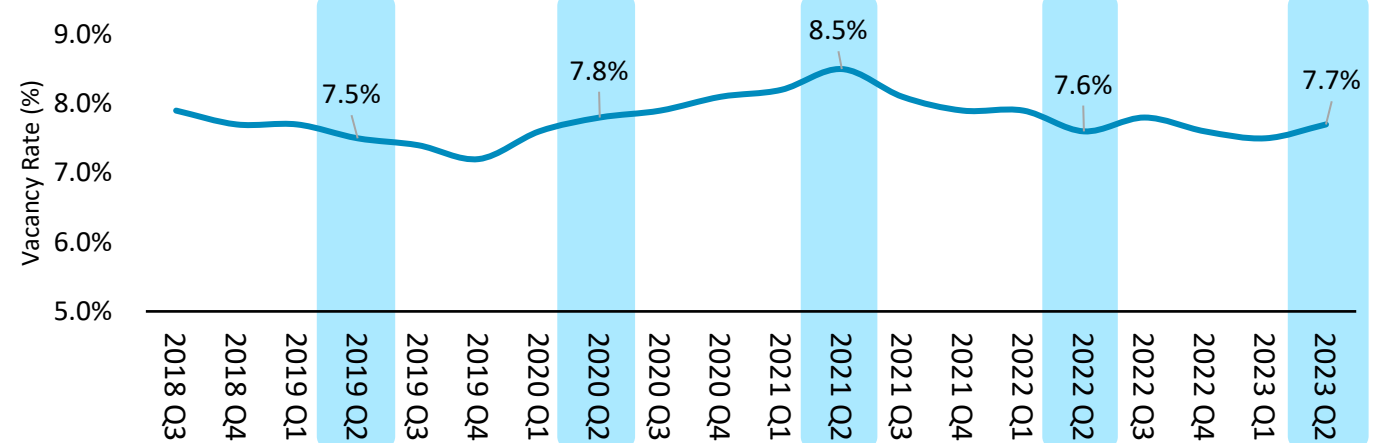
Under Construction & Net Deliveries (sq. ft)



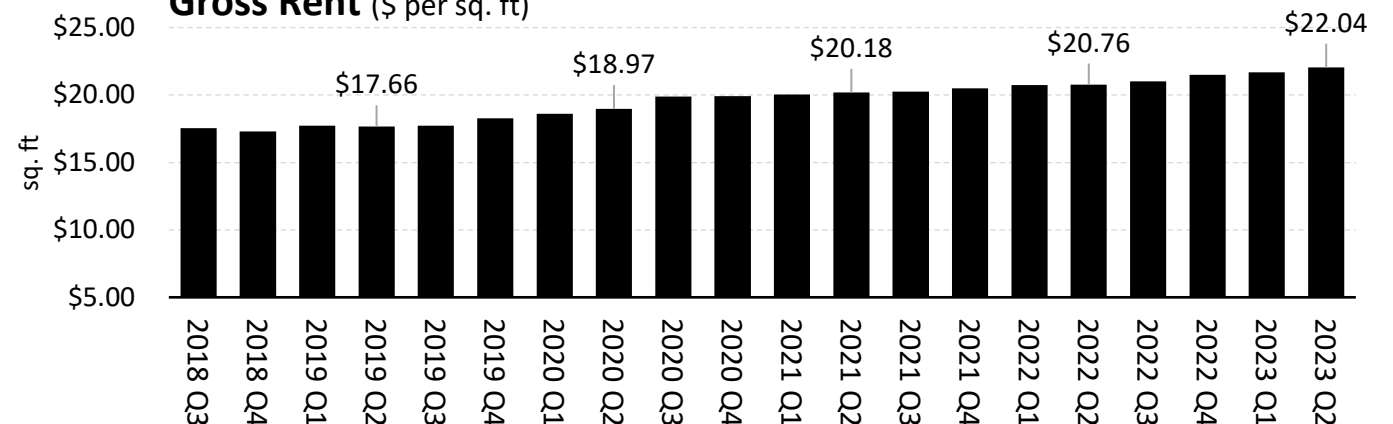
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)

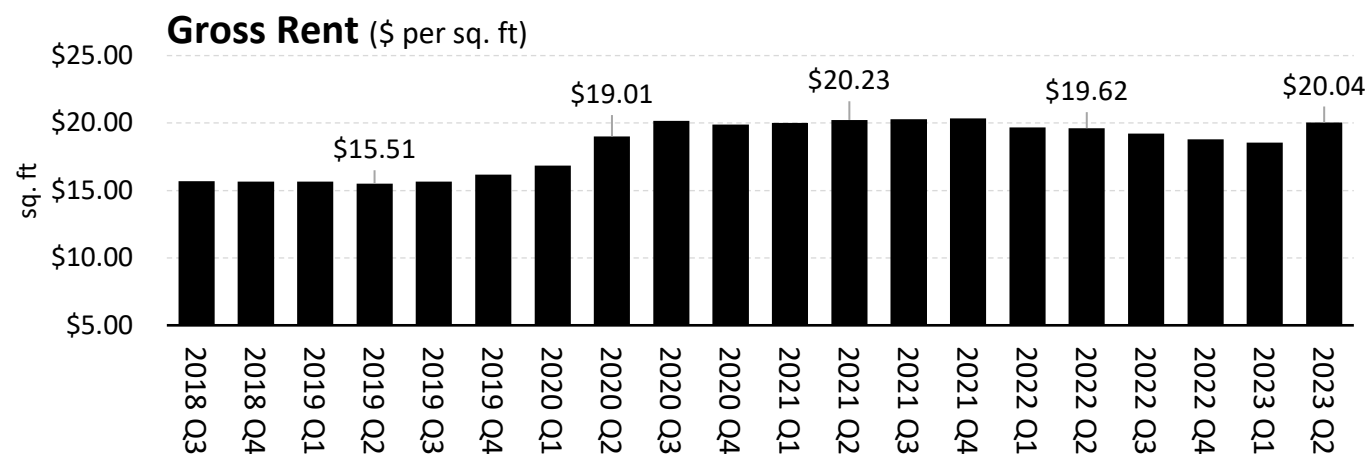
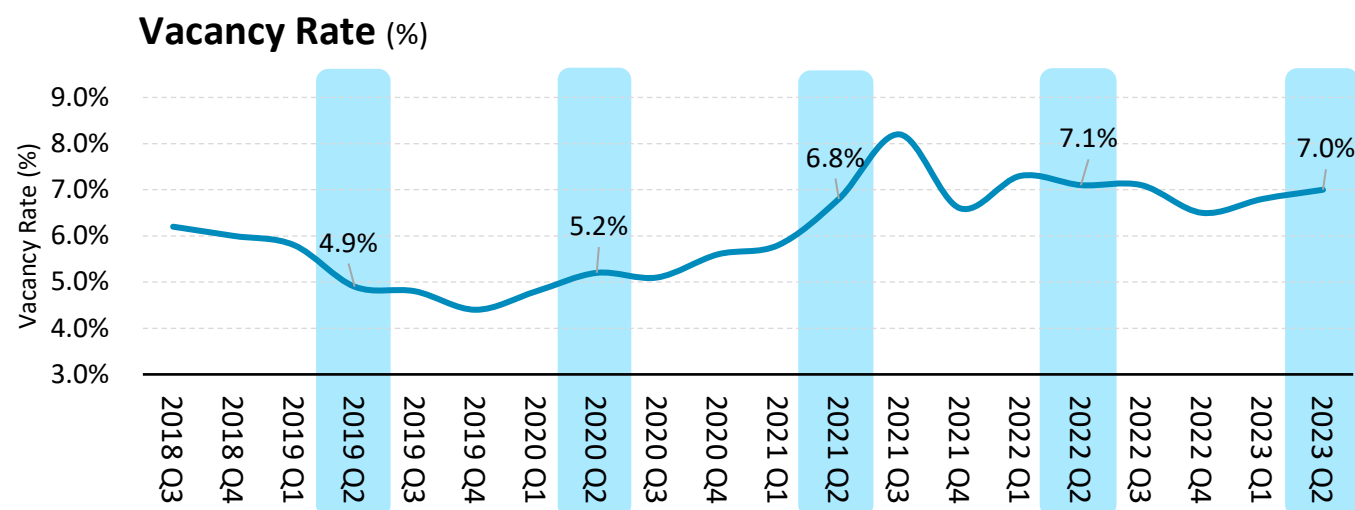
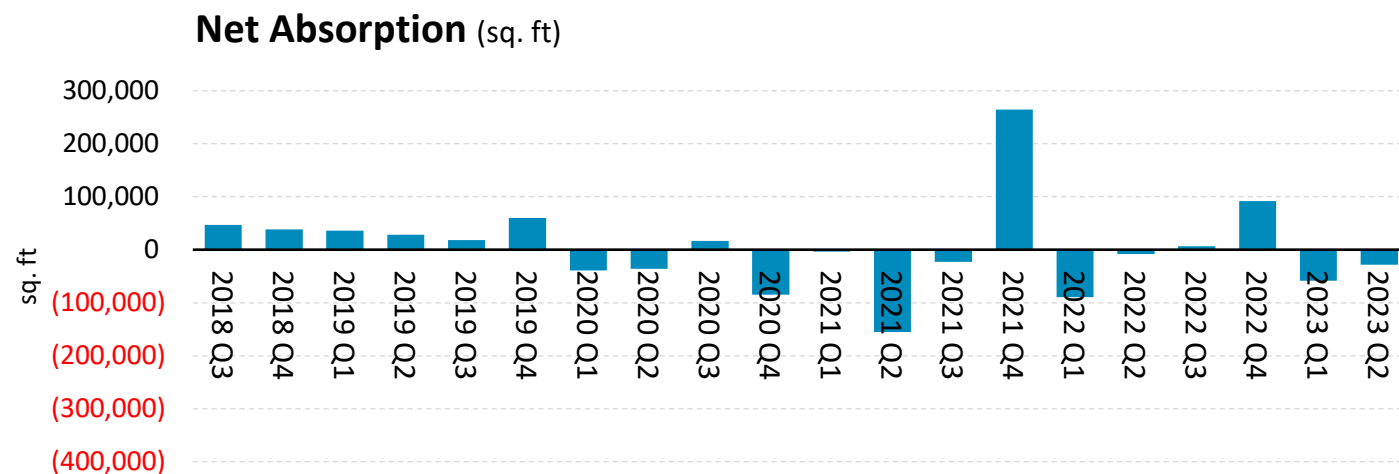
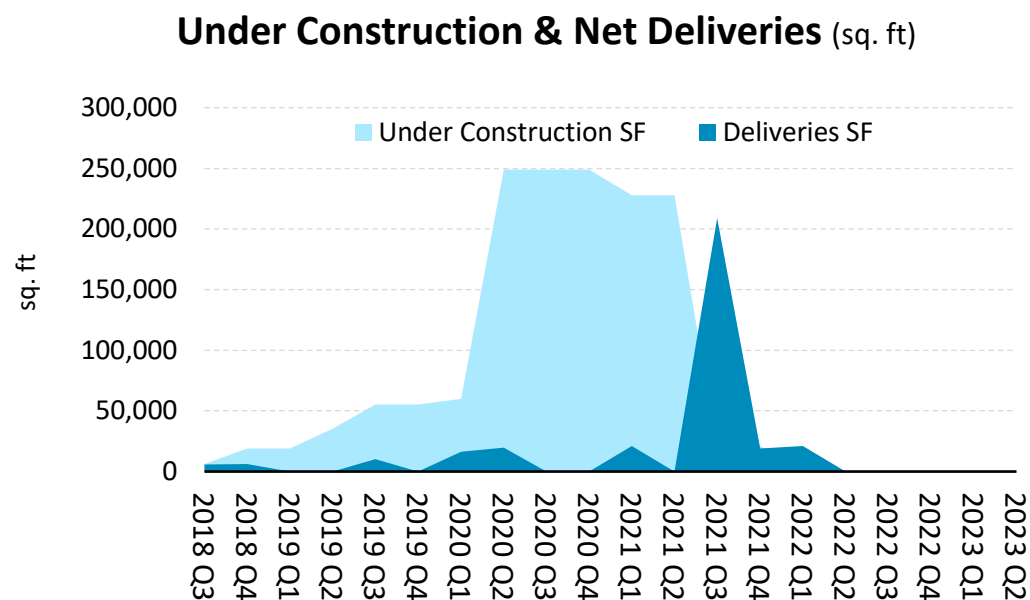


Office Market - MSA Trends

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



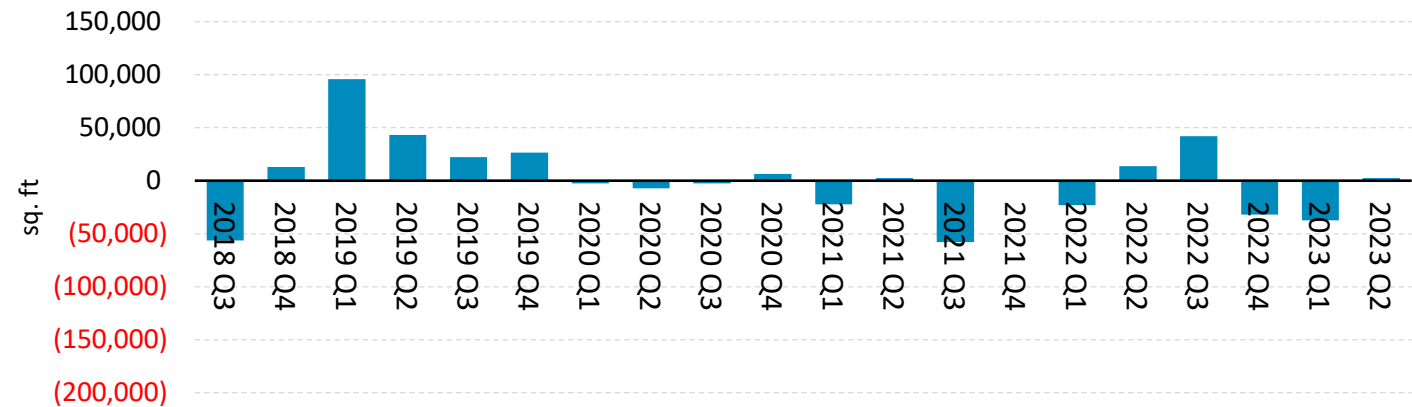
Office Market - MSA Trends

LYNCHBURG MSA

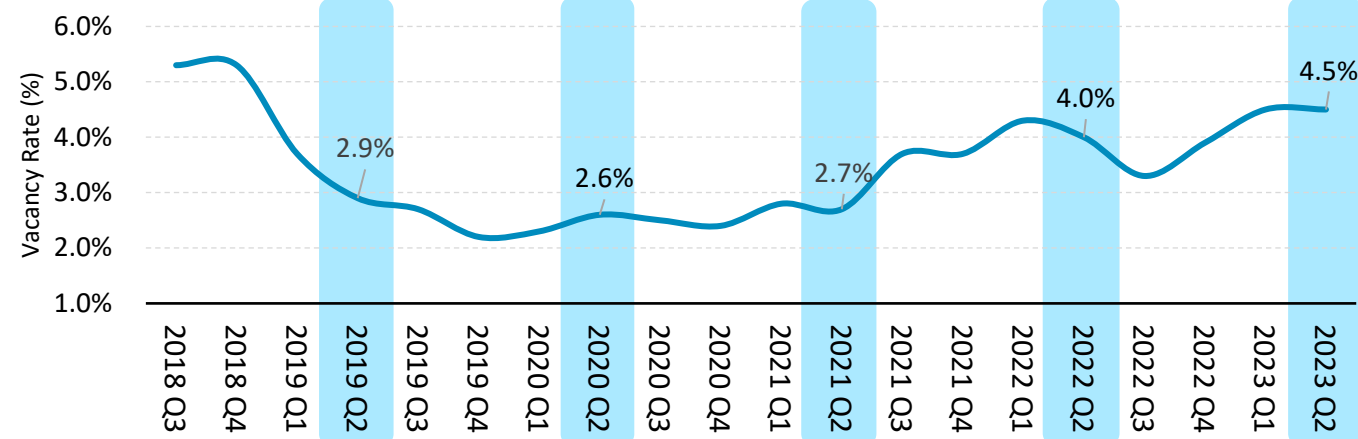
Local Market Indicator Dashboard

	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

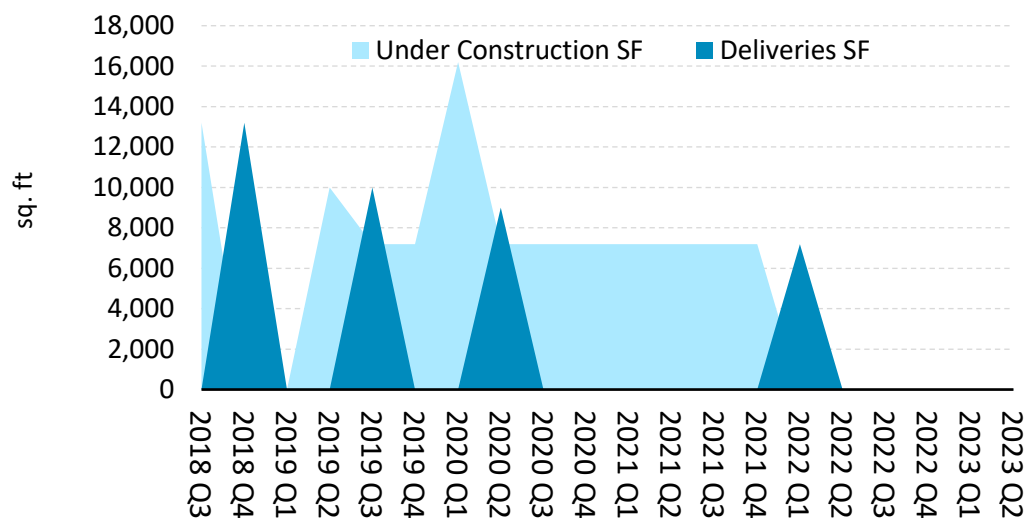
Net Absorption (sq. ft)



Vacancy Rate (%)



Under Construction & Net Deliveries (sq. ft)



Gross Rent (\$ per sq. ft)



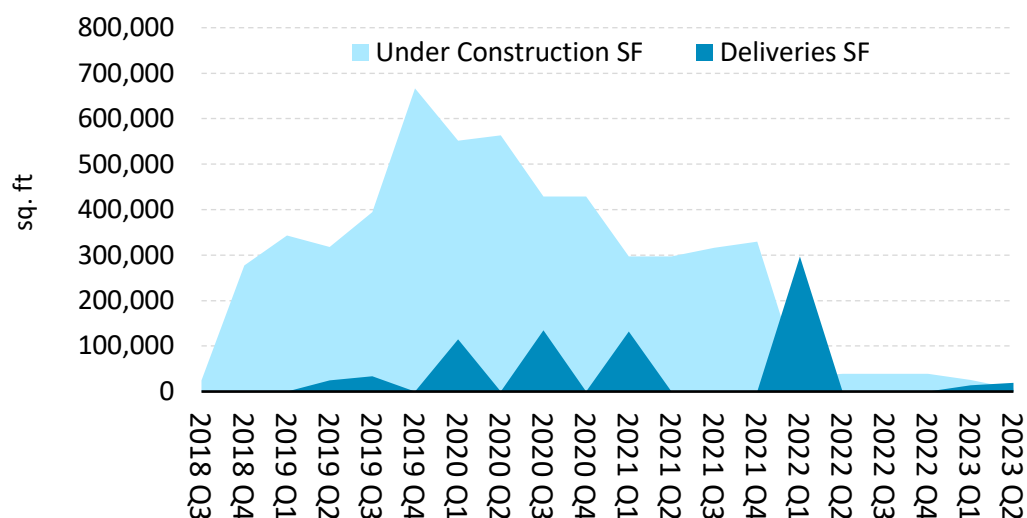
Office Market - MSA Trends

CHARLOTTESVILLE MSA

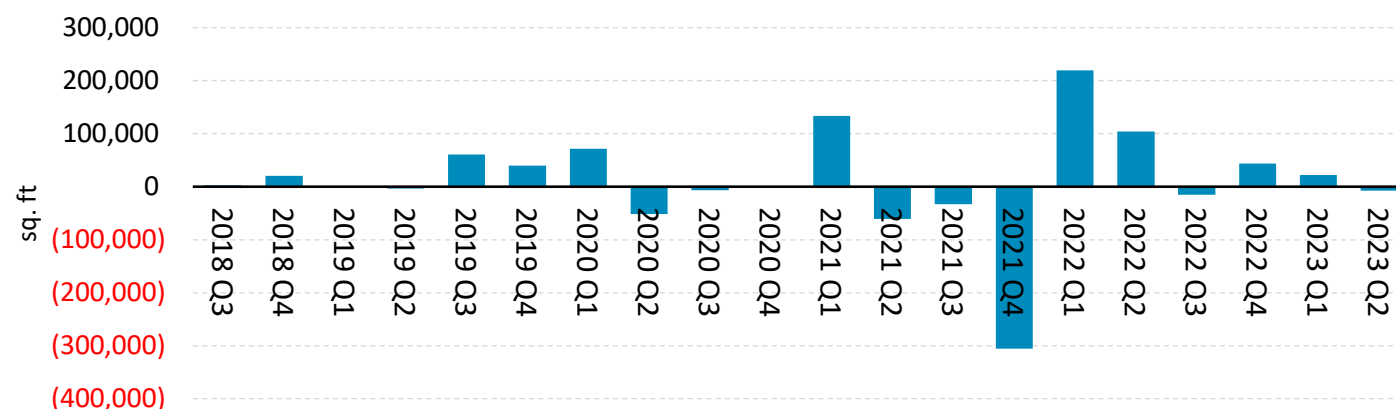
Local Market Indicator Dashboard

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

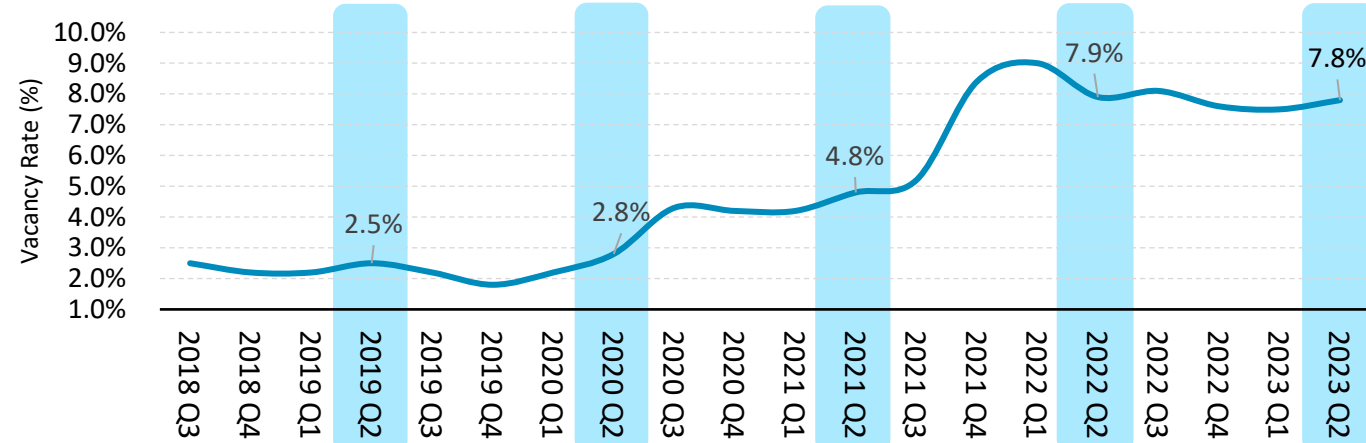
Under Construction & Net Deliveries (sq. ft)



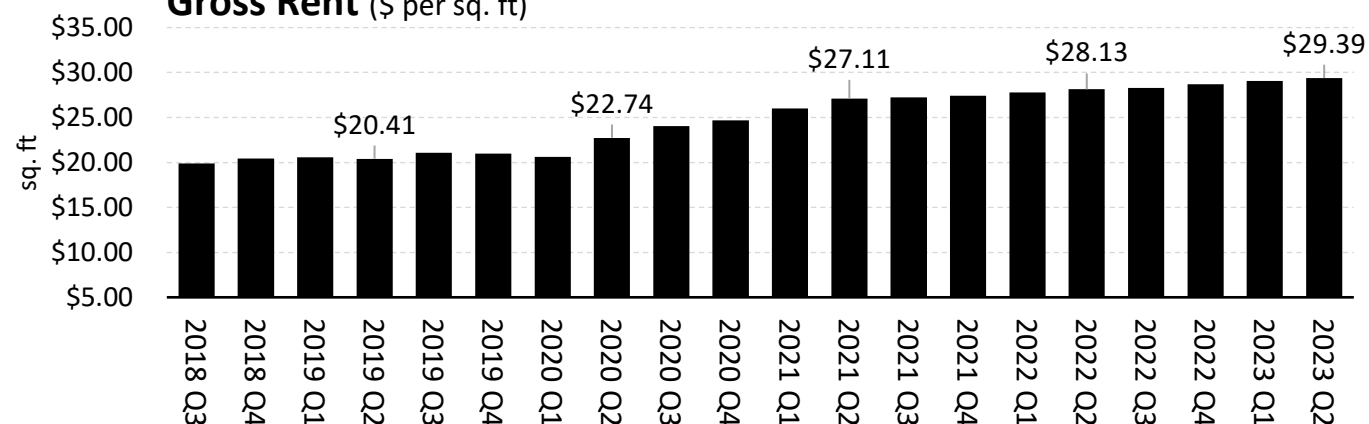
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)



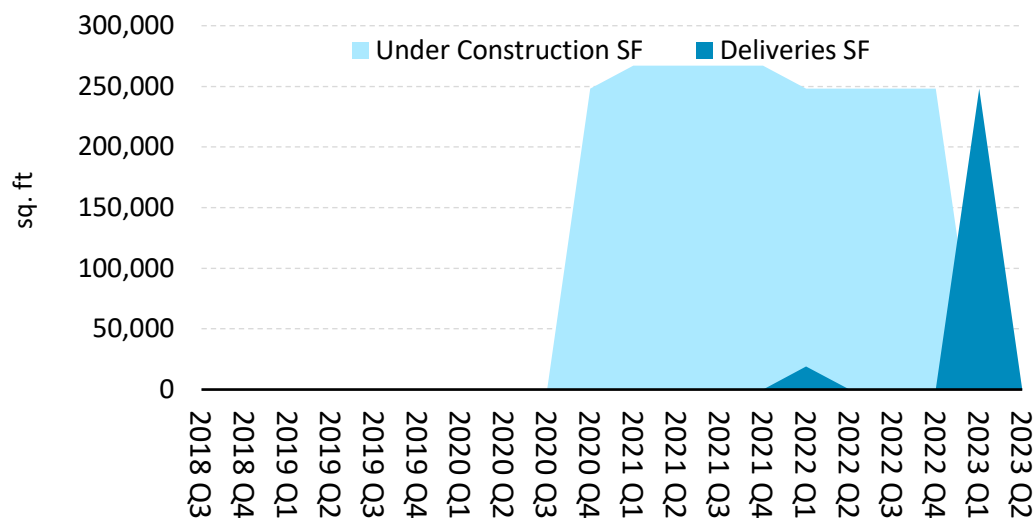
Office Market - MSA Trends

BLACKSBURG MSA

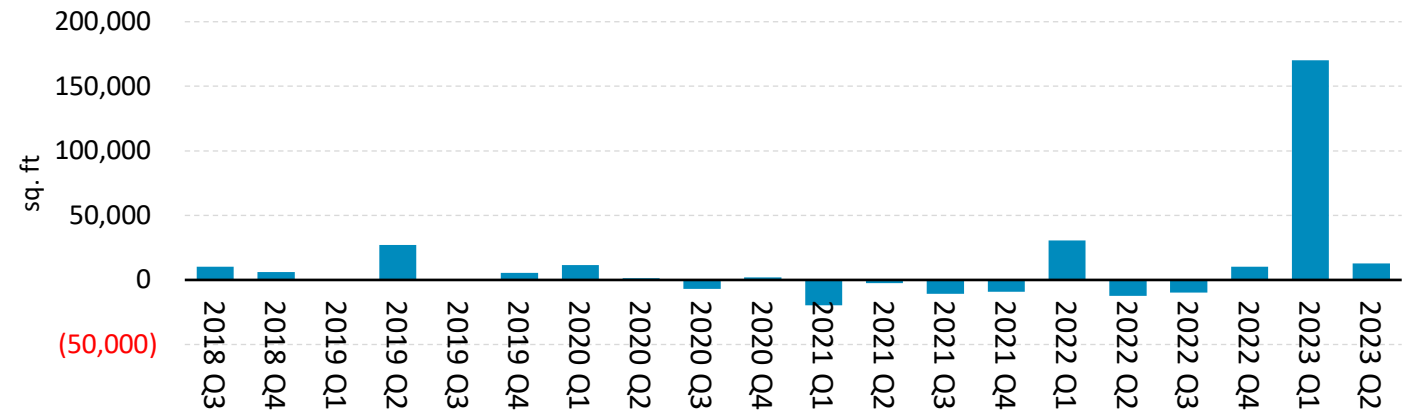
Local Market Indicator Dashboard

	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

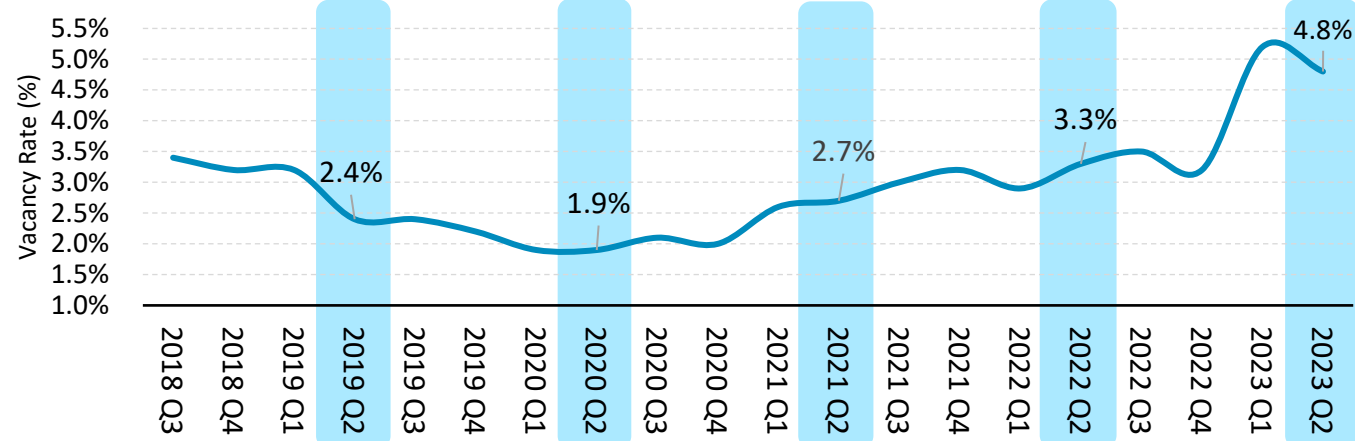
Under Construction & Net Deliveries (sq. ft)



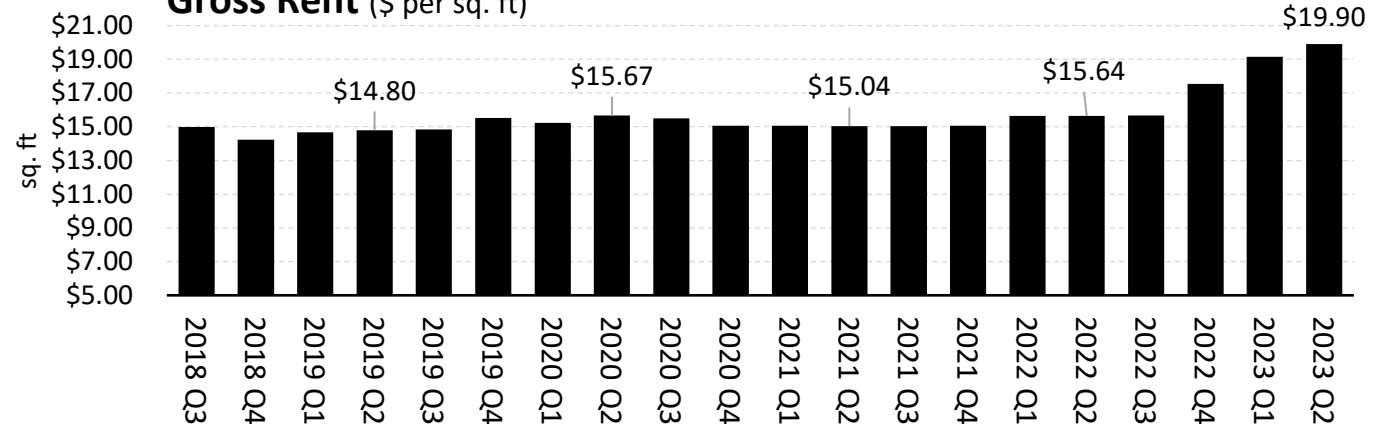
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)



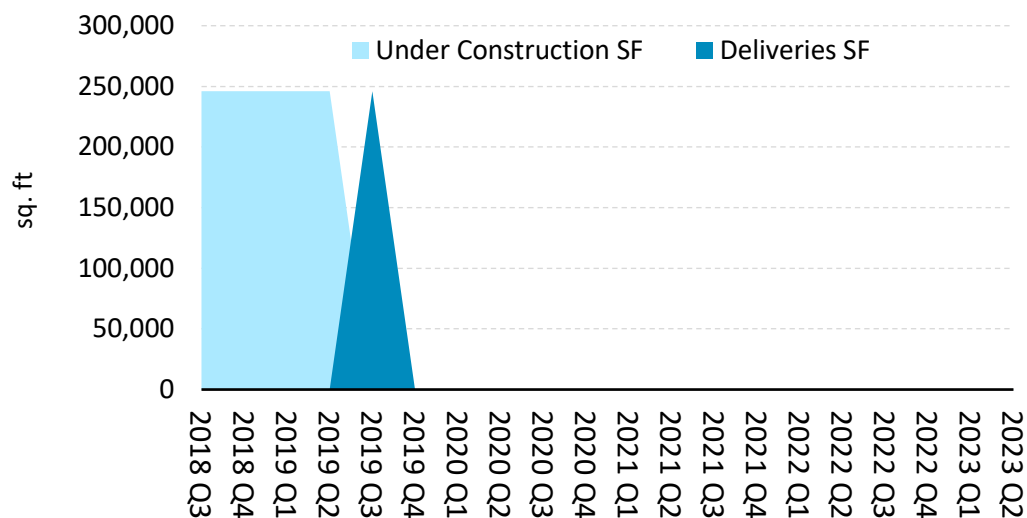
Office Market - MSA Trends

WINCHESTER MSA

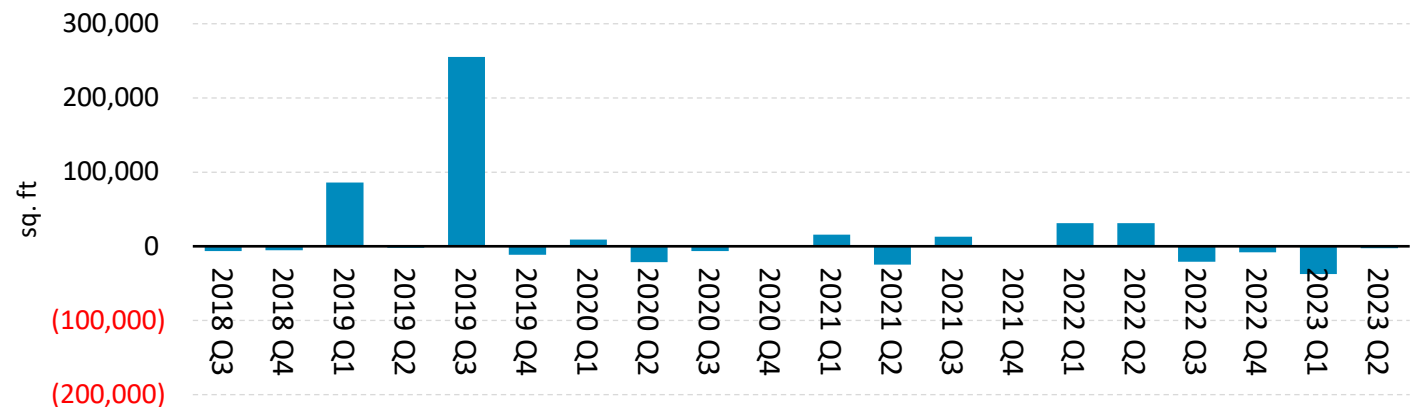
Local Market Indicator Dashboard

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

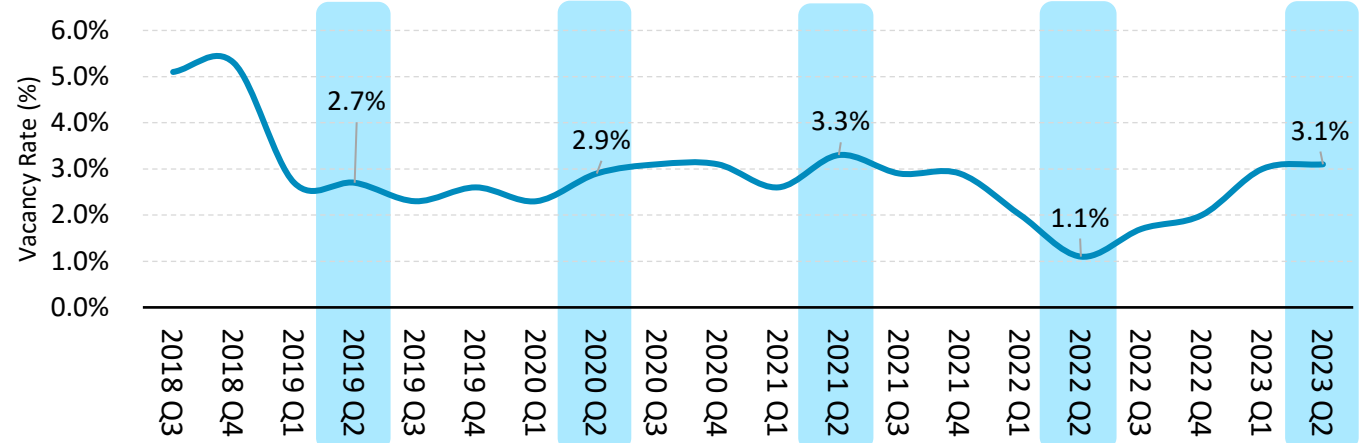
Under Construction & Net Deliveries (sq. ft)



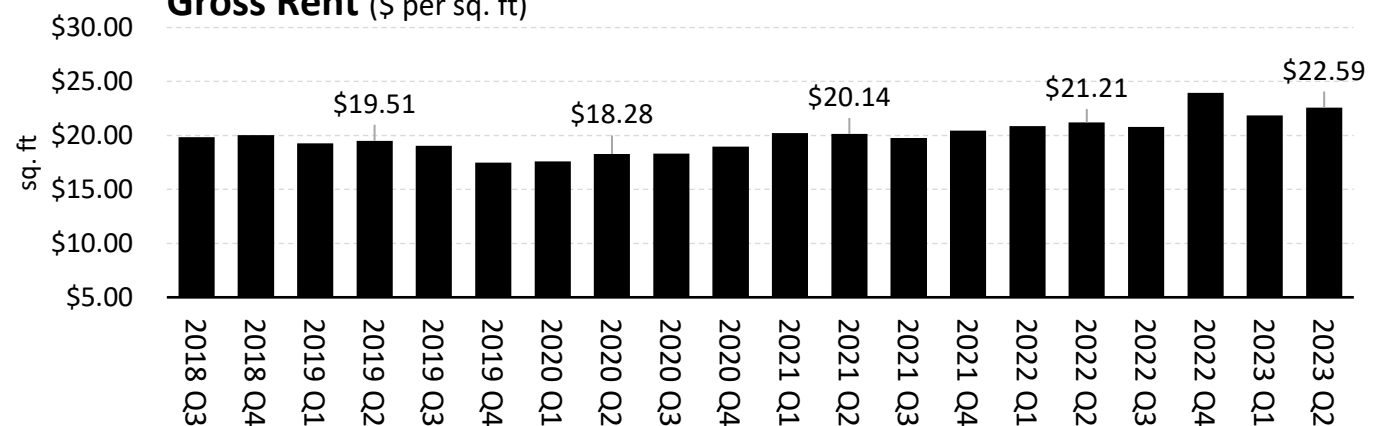
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)



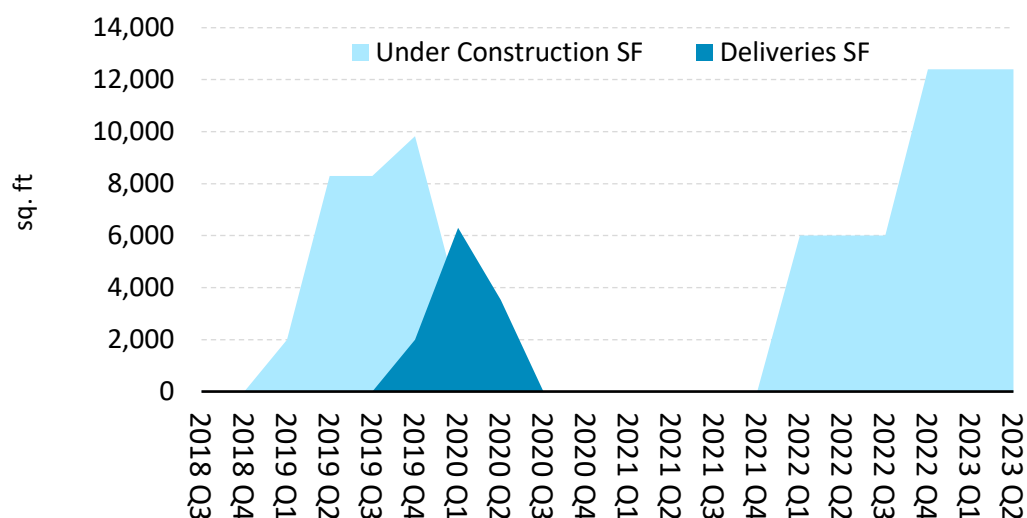
Office Market - MSA Trends

HARRISONBURG MSA

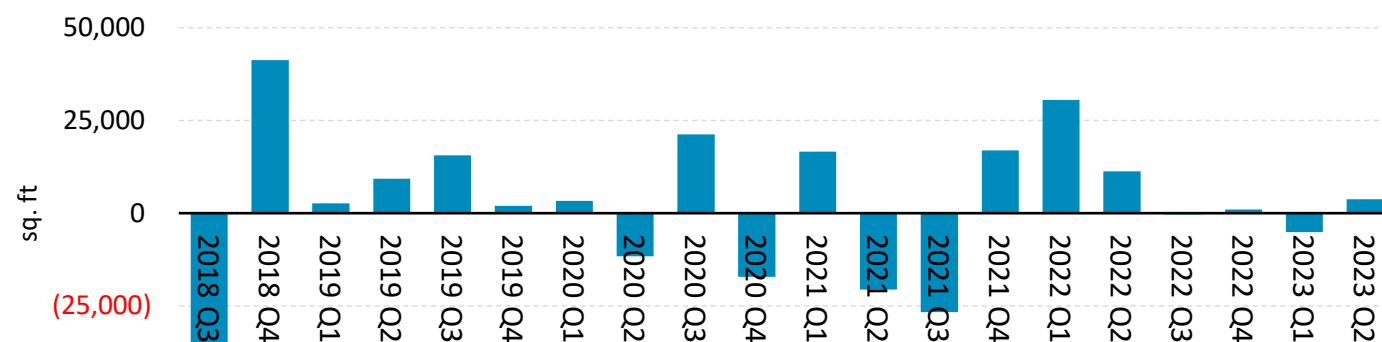
Local Market Indicator Dashboard

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

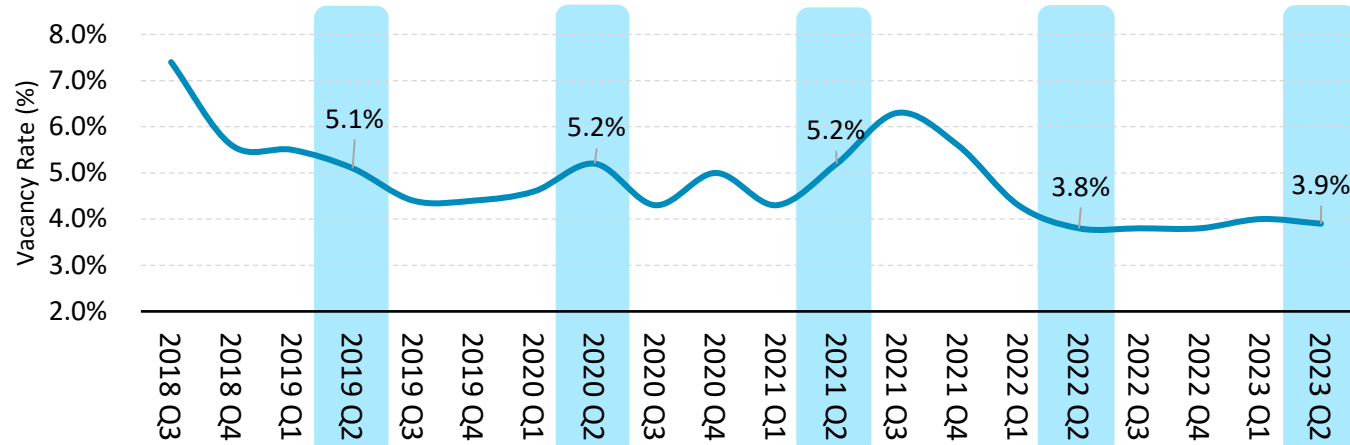
Under Construction & Net Deliveries (sq. ft)



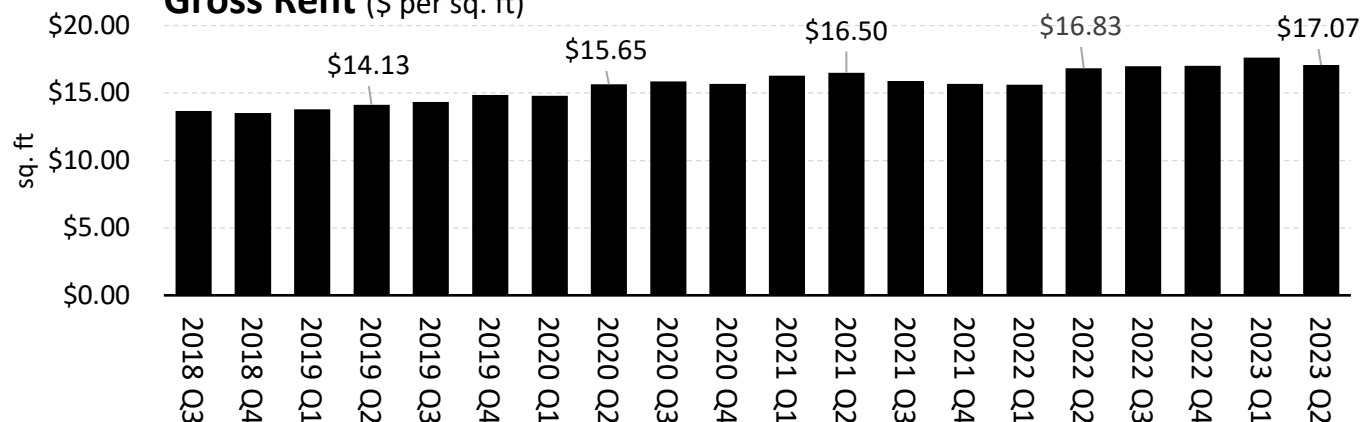
Net Absorption (sq. ft)



Vacancy Rate (%)



Gross Rent (\$ per sq. ft)



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Data and analysis provided by Virginia REALTORS® Chief Economist.

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