

NATIONAL LANDING

Market Snapshot

Q2 2022



INTRODUCTION

Despite the major impacts of COVID on regional markets, National Landing is poised to emerge from the pandemic stronger than ever.

Overview

National Landing – a dense, mixed-use downtown in Arlington, VA – is poised for significant change due to development of Amazon HQ2, Boeing's HQ relocation, and the creation of the new Virginia Tech Innovation Campus. The unprecedented investments of \$8B in private sector investment and \$4B in planned transportation investments is having a transformative impact on the identity of National Landing. While the COVID-19 pandemic hit National Landing hard in 2020, the market is rebounding – led by residential and Class A office uses. This Quarterly Report tracks the real estate and economic changes in National Landing being driven both by near-term pandemic recovery and long-term investments.

Development Trajectory and Pipeline

National Landing has a robust development pipeline without parallel in the region (16.7M SF), exceeding the amount of future development in the Capitol Riverfront (2.6M SF) – recently the region's fastest-developing neighborhood.

There is over 7.5M sq. ft. of office space in the pipeline, driven by Amazon, which plans to bring up to 37,500 jobs by 2035. There is also a significant amount of new residential development in the pipeline – 8,100 units – which will help to maintain the neighborhood's even balance of residential and commercial uses and a vibrant, 18-hour environment.

There are also 70 hotel rooms and 505,080 sq. ft. of retail in the pipeline.

About the National Landing BID

The National Landing Business Improvement District (BID) is a public-private partnership established to promote and activate the area's business, retail, restaurant and residential community. National Landing encompasses the neighborhoods of Pentagon City, Crystal City, and Potomac Yard. For more information, please see [here](#).



National Landing Development Pipeline

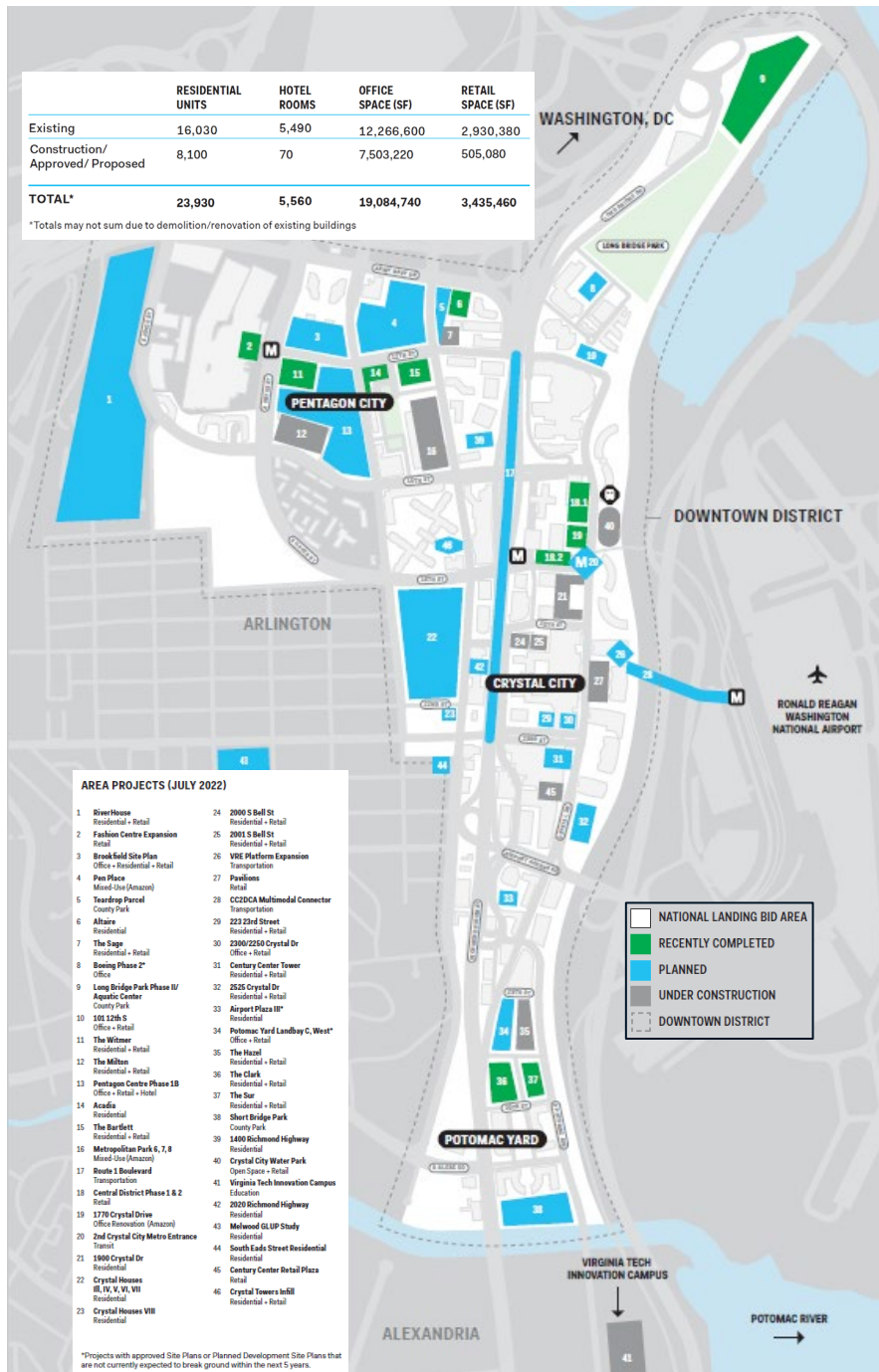
Office Space (sq. ft.)	Existing	12,266,600
	Construction/ Approved/ Proposed	7,503,220
	Total Net	19,084,740
Residential Units	Existing Total	16,030
	Rental Apartments	13,940
	Condominiums	2,090
	Construction/ Approved/ Proposed	8,100
	Total Net	24,130
Hotel Rooms	Existing	5,490
	Construction/ Approved/ Proposed	70
	Total Net	5,560
Retail Space (sq. ft.)	Existing	2,930,380
	Construction/ Approved/ Proposed	505,080
	Total Net	3,435,460

Source: National Landing BID. Demolition is not subtracted from the Total Net.

Note: Office totals do not include site plan for Boeing Headquarters

DEVELOPMENT MAP

There is robust development underway throughout the National Landing area. Notable deliveries in the past year include 1770 Crystal Drive and Central District.



Source: National Landing BID

OFFICE

The Class A office market has bounced back from impacts of the pandemic, with most metrics exceeding conditions in 2019 Q4. The Class B/C market is facing more persistent challenges.

A Robust Class A Market

Class A office rents now exceed pre-pandemic levels at \$40.17/ sq. ft. in 2022 Q2 vs. \$39.38 in 2019 Q4. There has been a small decline in 2022, decreasing by \$0.37/sq. ft. since 2021 Q4. While the 24% vacancy rate exceeds historic levels, it is largely driven by the EPA leaving One National Landing.

Further, in 2022 Q2, Class A office experienced positive net absorption of 10,550 sq. ft., indicating a reversal of COVID trends that have held for the past three quarters. In 2022 Q2, there was 95,000 sq. ft. of available sublet space, flat in 2022.

Class B/C Struggles

Class B/C office rents have reversed their pandemic-induced decline, climbing to \$32.64/ sq. ft. Vacancy rates have spiked to 23% compared to 12% in 2021 Q1, primarily driven by the TSA leaving in 2021 Q2.

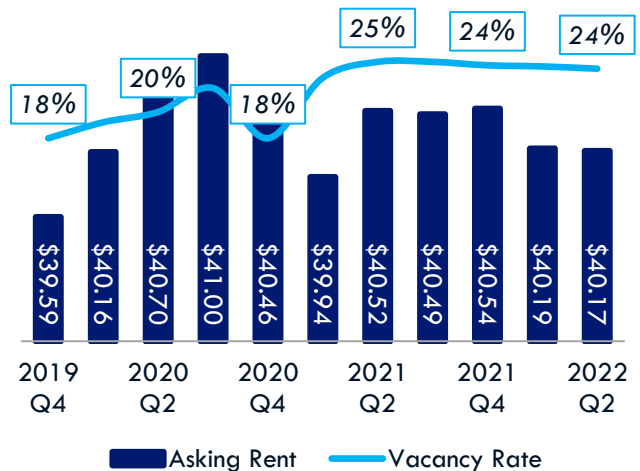
Class B/C office space saw negative absorption, 68,000 sq. ft, continuing a negative trend that started at the beginning of the pandemic, and 177,760 sq. ft. of space available for sublet, decreasing from its highest level of the pandemic in 2021 Q4. However, this is in line with regional trends as DC and Northern Virginia saw negative absorption of 361,000 and 572,000 sq. ft., respectively. These trends are primary fueled by a "flight to quality" as office tenants relocate to newer, smaller, and generally better amenitized office spaces. A point of excitement among new lease activity is the introduction of Zebox and Chinook Systems, both tech companies that build on Amazon's momentum.

Significant teardowns of vacant office space are anticipated in the future which should improve vacancy statistics and create future redevelopment opportunities.

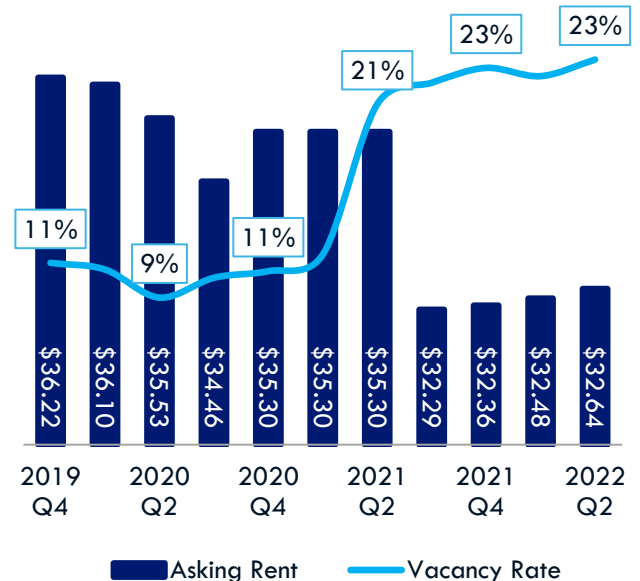
Notable Leasing Transactions

Company	Address	Sq. ft.
Depart. of Defense	2530 Crystal Drive	560,000
Rand Corporation	1201 S Hayes St	127,000
Zebox	1550 Crystal Drive	14,000
Chinook Systems	1235 S Clark St.	9,200

CLASS A RENT AND VACANCY 2019 Q4-2022 Q2



CLASS B/C RENT AND VACANCY 2019 Q4-2022 Q2



Source: Costar; Newmark; Colliers; Lincoln Property Company, 2021; Commercial Observer.

MULTIFAMILY

The multifamily sector's strong recovery accelerated in 2022 Q2 with decreasing vacancy and increasing rents. The robust pipeline grew in Q2.

Rents Surpassing Pre-COVID Levels

Class A apartment rents are \$3.19/ sq. ft, higher than the DC MSA's Class A average of \$2.85/ sq. ft, and surpassing pre-COVID rents by a wide-margin. Rents in National Landing have grown 9% since the beginning of 2022, over twice the DC MSA's 4% rate of growth. Class B/C rents follow a similar trajectory, with rents in National Landing increasing to \$2.61/sq. ft., higher than the DC MSA's Class B/C average of \$2.03/ sq. ft. Since the beginning of 2022, Class B/C rents in National Landing have grown 8% - faster than the 3% rate of growth in the DC MSA over the same time period.

Healthy Multifamily Demand

After a brief setback in 2020, demand for housing in National Landing appears to be strong and increasing. Vacancy dropped from 10.4% to 4.6%, compared to 10.7% to 6.7% in the DC MSA. Currently, vacancy for Class A is 4.4% and 4.8% for Class B/C. This is a significant decrease from 2020 Q4's vacancy highs of 12.9% and 12.6%, respectively.

This demand is reflected in an increase in absorption in Class A (35 units) and positive absorption in Class B/C (84 units) in 2022 Q2. Class A absorption is down slightly from Q1 (47 units) but increased for Class B/C (41 units). In the DC MSA, net absorption was greater in 2022 Q1 than 2022 Q2 across both Class A (2,336 vs. 1,938 units) and Class B/C units (997 vs. 941 units).

Development

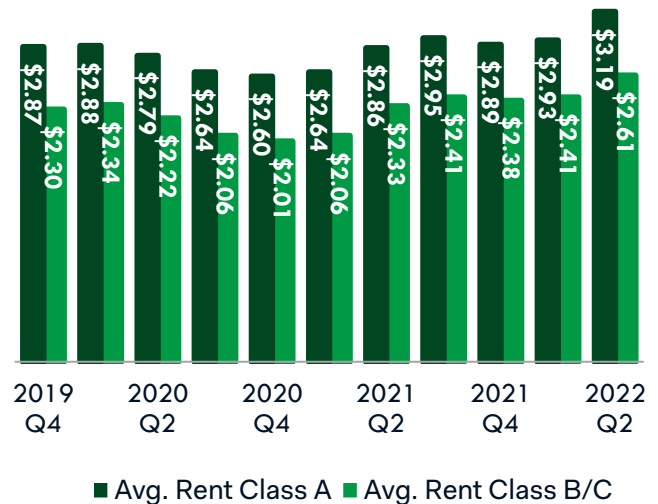
JBG SMITH submitted plans in 2021 Q4 to redevelop the Americana Inn (shuttered in 2020) as a 20-story residential building with 650 units, which will further expand the development pipeline in National Landing.

Planned and Proposed Developments

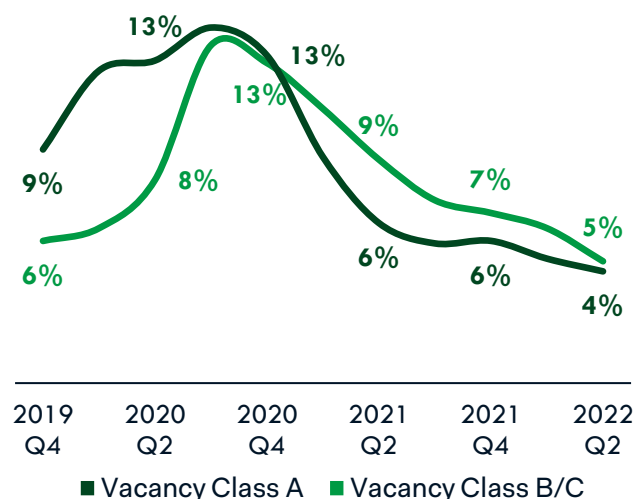
Address	Units	Phase
223 23rd/ 2250 Crystal Drive	1,400	Proposed
Americana Inn 1400 Richmond Hwy	650	Plans submitted
Crystal Towers 3	209	Proposed
2020 Richmond Hwy	162	Proposed

Source: Costar; National Landing BID.

AVERAGE RENT PER SF MULTIFAMILY
2019 Q4-2022 Q2



VACANCY CLASS A & CLASS B/C
2019 Q4-2022 Q2



HOTEL

The hotel sector is rapidly rebounding, with demand nearing pre-COVID-19 levels.

Travel

Washington, DC welcomed 18.8M domestic visitors in 2021, 17.5% below 2019 levels, but outperforming predictions. This was largely driven by the return of school travel, the Inauguration, and the Cherry Blossom Festival. Washington, DC is predicting 20M domestic visitors in 2022, an increase over 2021, but still lagging 2019 levels.¹ International visitation, which accounted for 7% of visitation in 2019, is not expected to rebound until 2025.² Currently, the hotel sector in National Landing is the second largest in the region and largely caters to business travel, group travel, and airport travel, with business travel slower to rebound.

Increasing Average Daily Rate (ADR)

The ADR for National Landing's hotels jumped to \$185 in 2022 Q2 – a \$46 increase from 2022 Q1 and the highest ADR since 2019. The large increase is partially caused by standard seasonal fluctuations but indicates a rebound in hotel demand. However, this is still 5% below \$194, the ADR in the same quarter of 2019.

Recovering Occupancy, Outpacing DC CBD

National Landing's hotel occupancy rose to 79% in Q2 for the first time since the onset of COVID-19. This may be a part of National Landing's typical annual occupancy flows as Q2 is always National Landing's strongest quarter for hospitality, with occupancy jumping 20% between Q1 and Q2 in 2019.

Occupancy grew dramatically in both National Landing and the Washington, DC Central Business District (CBD). National Landing has reached 79% occupancy rate, while DC CBD is at 72%, a major reversal in historically low occupancy at the onset of the pandemic.

Revenue per Available Room (RevPAR)

RevPAR doubled in 2022 Q2 to \$146, continuing COVID-19 recovery, but still \$21 below 2019 Q2. Nevertheless, the large increase in RevPAR, which is both a reflection of occupancy rate and ADR, is a promising sign of the hospitality industry's recovery.

Hotel Conversions

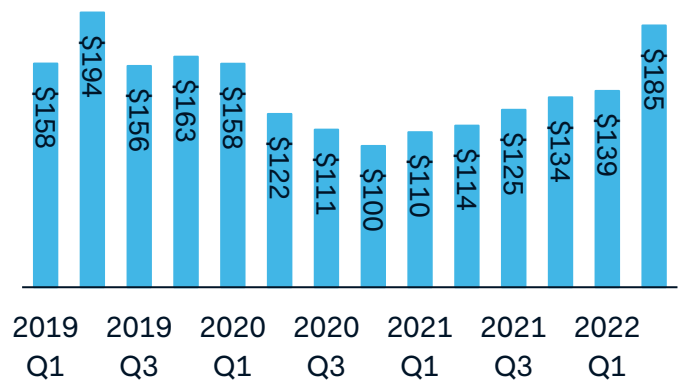
COVID-19 has resulted in hotels shuttering across the country. In 2022 Q2, there were 5,500 hotel rooms in National Landing's inventory. This is a 400-room reduction compared to 2019, due to the closure of Residence Inn Arlington and the Americana Hotel. Both sites are being redeveloped.

Source: Costar, 2022.

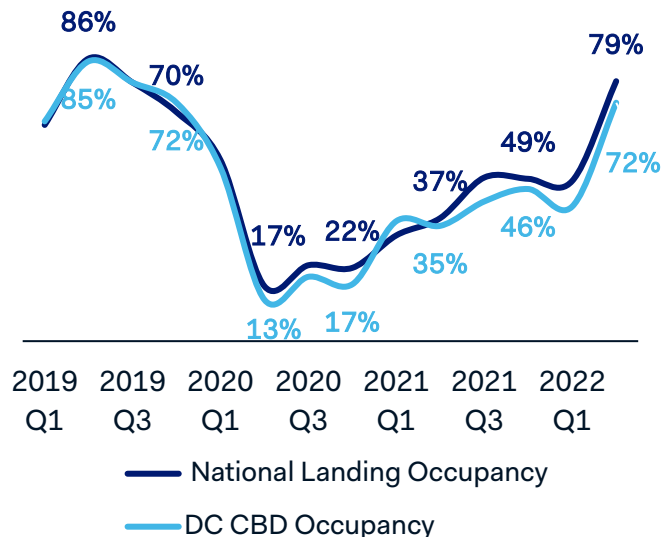
¹ DestinationDC, 2022.

² Washington.org, 2021.

HOTEL ADR
2019 Q1-2022 Q2



HOTEL OCCUPANCY
NATIONAL LANDING VS DC CBD
2019 Q1-2022 Q2



STOREFRONT VISITATION

Despite increasing through 2021 and 2022, storefront visitation remains 31% below 2019 levels, a recovery that exceeds that of the DC CBD.

Storefront Visitation's Slow Rebound

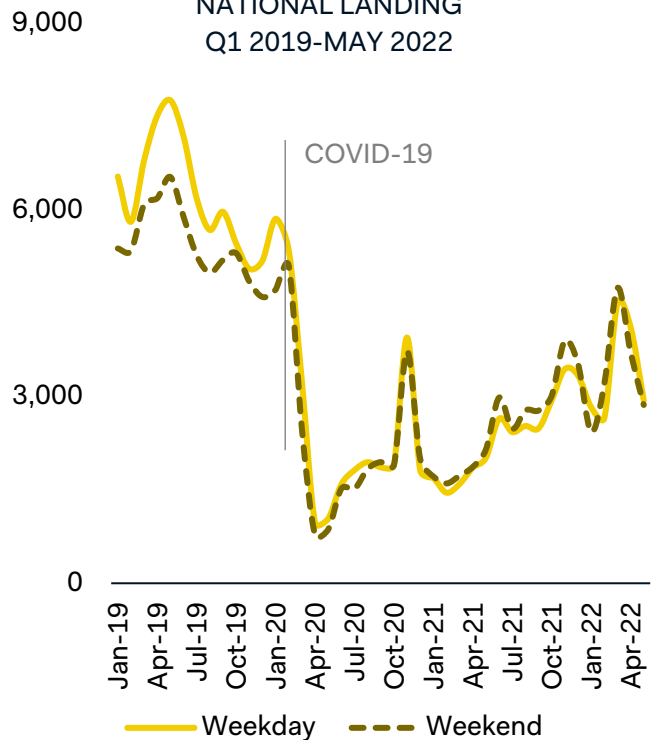
National Landing's storefront visitation is 31% below pre-COVID visitation in 2022 YTD but continues to narrow the pre-COVID visitation gap. National Landing has recovered more visitation than DC CBD, which remains 59% below pre-COVID visitation.

The storefront visitation of food and beverage (including full-service and limited-service restaurants and bars), initially declined the most with the onset of COVID-19 (-80% in April 2020) but has recovered 74% of 2019 visitation in 2022 YTD. Dry retail has recovered 93% of visits, but did not see the same levels of visitor reductions in April 2020. Finally, arts, entertainment, and recreation have surpassed 2019 visitation levels and are 18% above 2019 visitation.

Weekend Visitation Leads Recovery

National Landing's growing residential population and strong leisure activity offerings have contributed to a strong visitation recovery, helping to slightly offset the loss of workers due to remote work. Prior to COVID-19, weekday visitation exceeded weekend visitation, but now weekend visitation slightly exceeds weekday visitation by 3%—due to the strong and growing residential base in National Landing.

WEEKEND VS. WEEKDAY AVERAGE
DAILY STOREFRONT VISITS,
NATIONAL LANDING
Q1 2019-MAY 2022

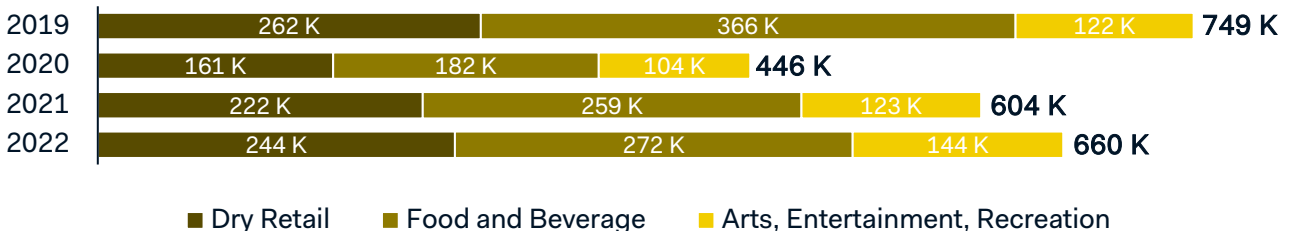


**CHANGE IN VISITS
(AVG 2019-AVG YTD
2022)**

-31%
NATIONAL LANDING

-59%
DC CBD

AVERAGE MONTHLY STOREFRONT VISITORS, NATIONAL LANDING 2019-2022 YTD



Source: Safegraph. Safegraph is a data source derived from anonymized mobile devices that measures total visitors and visits to storefront businesses and destinations. Arts, Entertainment, and Recreation includes museums, galleries, fitness studios, and parks.

EMPLOYMENT + DEMOGRAPHICS

Professional services and tech jobs grew by 13% during COVID-19, offsetting the decline in accommodation and food services jobs. The population is also growing at an impressive rate.

Professional, Scientific, And Technical Services Led Job Growth

Professional, scientific, and technical services is the largest industry in National Landing with 10,000 workers in 2021 – a 13% (1,200 jobs) increase in jobs since 2019 – largely driven by Amazon who has added 5,000 jobs to HQ2. This significantly outpaces trends in DC and Northern Virginia, where this sector only grew by 3% (3,590 jobs) and 2% (4,500 jobs) in the same time period.

Pandemic-Related Job Losses Driven by Services

All other industries saw negligible or negative growth. Service-oriented sectors such as retail trade and accommodations and food services were severely impacted by COVID-19. Accommodation and food services jobs have declined by 40% - over 1,700 jobs - since 2019. However, National Landing lost fewer of these jobs than DC, which lost 48% (-3,700 jobs) of its accommodation and food services jobs due to COVID-19.

Total jobs in National Landing declined by 4% from 2019 to 2021 - a loss of 1,300 jobs. In comparison, Northern Virginia had a 3% reduction in jobs (-3,500 jobs) during the same time period.

Faster Employment Recovery

Both National Landing and Northern Virginia have yet to recover all of the jobs lost in COVID-19. However, National Landing added a net of 120 jobs (+0.4%), exceeding job growth in Northern Virginia (+0.1%) indicating National Landing is recovering at a faster rate.

Population

National Landing's population has grown by an impressive 6% since 2019. This is notable as Northern Virginia's population only grew by 1% in the same time period. Furthermore, National Landing maintains a 1.1 ratio of daytime workers to residents—much more balanced than its peers of the DC CBD (9.6), Tysons Corner (1.9), Capitol Riverfront (1.4), and Rosslyn-Ballston (1.4).

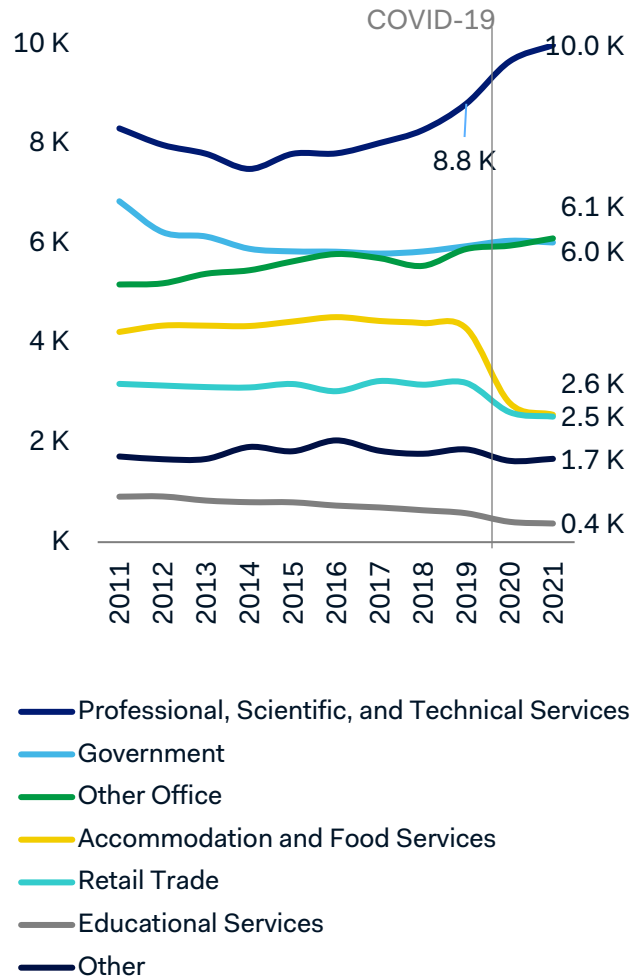
National Landing Employment and Population

	2019	2020	2021	Change 2019-2021
Jobs	30,600	29,100	29,200	-4%
Residents	21,200	21,800	22,500	6%

Source: EMSI; ESRI.

Note: All Demographics and Industry Data uses census tracts 1034.02, 1035.02, 1035.03, 1036.02 in Arlington County. "Other Office" includes NAICS Codes 51, 52, 53, 55, 56, and 81. "Other" includes NAICS codes 11, 21, 22, 23, 31, 42, 48, 62, 71, and 99.

TOTAL JOBS BY INDUSTRY
2011-2021





**NATIONAL
LANDING**
PENTAGON CITY
CRYSTAL CITY
POTOMAC YARD

CLARK
CONSTRUCTION

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THE MOMENTUM
NATIONAL LANDING