

NATIONAL LANDING

Market Snapshot

Q3 2022

sage

480 11TH ST SOUTH | ARLINGTON, VA 22202

ABOUT NATIONAL LANDING



The National Landing BID boundary is exclusively located within Arlington County comprised of the three distinct neighborhoods of Crystal City, Potomac Yard, and portions of Pentagon City. The term “National Landing,” however, also refers to a cohesive new urban district that extends into Potomac Yard, Alexandria and includes the Virginia Tech Innovation Campus and the soon-to-open Potomac Yard Metro Station. This broader district and name emerged through Northern Virginia’s pursuit of Amazon’s HQ2 and has become recognized as a new commercial submarket.

The use of National Landing as the overarching name for the area was vetted by the BID through a significant community outreach and engagement process as part of the name change for the BID’s Service District, which was approved by the Arlington County Board in early 2020.

INTRODUCTION

Despite the major impacts of COVID on regional markets, National Landing is poised to emerge from the pandemic stronger than other commercial districts in the region.

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 are 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 (16.9M 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 at least 25,000 jobs by 2030. 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.

FEDERATED WIRELESS NEW HQ - MAJOR MILESTONE IN THE GROWTH OF 5G NETWORK AND INNOVATION ECOSYSTEM



NATIONAL LANDING DEVELOPMENT PIPELINE

Office Space (sq. ft.)	Existing	12,266,600
	Proposed Construction/ Approved/	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
	Proposed Construction/ Approved/	70
	Total Net	5,560

Retail Space (sq. ft.)	Existing	2,930,380
	Proposed Construction/ Approved/	505,080
	Total Net	3,435,460

	RESIDENTIAL UNITS	HOTEL ROOMS	OFFICE SPACE (SF)	RETAIL SPACE (SF)
Existing	16,030	5,490	12,266,600	2,930,380
Construction/ Approved/Proposed	8,100	70	7,503,220	505,080
TOTAL*	24,130	5,560	19,084,740	3,435,460

*Totals may not sum due to demolition/renovation of existing buildings

AREA PROJECTS (SEPTEMBER 2022)

- | | | |
|---|---|--|
| 1 RiverHouse
Residential + Retail | 17 Route 1 Boulevard
Transportation | 33 Airport Plaza III*
Residential |
| 2 Fashion Centre Expansion
Retail | 18 Central District Phase 1 & 2
Retail | 34 Potomac Yard Landbay C, West*
Office + Retail |
| 3 Brookfield Site Plan
Office + Residential + Retail | 19 1770 Crystal Drive
Office Renovation (Amazon) | 35 The Hazel
Residential + Retail |
| 4 Pen Place
Mixed-Use (Amazon) | 20 2nd Crystal City Metro Entrance
Transit | 36 The Clark
Residential + Retail |
| 5 Teardrop Parcel
County Park | 21 1900 Crystal Dr
Residential | 37 The Sur
Residential + Retail |
| 6 Altaire
Residential | 22 Crystal Houses III, IV, V, VI, VII
Residential | 38 Short Bridge Park
County Park |
| 7 Sage
Residential + Retail | 23 Crystal Houses VIII
Residential | 39 1400 Richmond Highway
Residential |
| 8 Boeing Phase 2*
Office | 24 2000 S Bell St
Residential + Retail | 40 Crystal City Water Park
Open Space + Retail |
| 9 Long Bridge Park Phase II/ Aquatic Center
County Park | 25 2001 S Bell St
Residential + Retail | 41 Virginia Tech Innovation Campus
Education |
| 10 101 12th S
Office + Retail | 26 VRE Platform Expansion
Transportation | 42 2020 Richmond Highway
Residential |
| 11 The Witmer
Residential + Retail | 27 Pavilions
Retail | 43 Melwood GLUP Study
Residential |
| 12 The Milton
Residential + Retail | 28 CC2DCA Multimodal Connector
Transportation | 44 South Eads Street
Residential |
| 13 Pentagon Centre Phase 1B
Office + Retail + Hotel | 29 223 23rd Street
Residential + Retail | 45 Century Center Retail Plaza
Retail |
| 14 Acadia
Residential | 30 2300/2250 Crystal Dr
Office + Retail | 46 Crystal Towers Infill
Residential + Retail |
| 15 The Bartlett
Residential + Retail | 31 Century Center Tower
Residential + Retail | |
| 16 Metropolitan Park 6, 7, 8
Mixed-Use (Amazon) | 32 2525 Crystal Dr
Residential + Retail | |

*Projects with approved Site Plans or Planned Development Site Plans that are not currently expected to break ground within the next 5 years.

ALEXANDRIA

WASHINGTON, DC

LONG BRIDGE PARK

PENTAGON CITY

DOWNTOWN DISTRICT

ARLINGTON

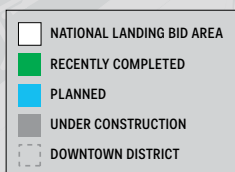
CRYSTAL CITY

RONALD REAGAN
WASHINGTON
NATIONAL AIRPORT

POTOMAC YARD

VIRGINIA TECH
INNOVATION CAMPUS

POTOMAC RIVER



OFFICE

The Class A office market has slightly declined in rent rate and is the lowest since 2019Q4. The Class B/C market continues to face similar difficulties from the previous quarter.

Class A Market Decline

Class A office rents decreased by \$1.37/sq.ft. since 2021 Q4 and remain behind pre-pandemic levels at \$39.17/ sq. ft. vs. \$39.59 in 2019 Q4. While the 26% vacancy rate exceeds historic levels, this increase is largely driven by a single federal office tenant departure with the EPA leaving One National Landing (2777 Crystal Drive, Arlington, VA, 22202). Further, Class A office experienced negative net absorption of 81,975 sq. ft. this quarter, reflecting the downsizing of office tenant square footage compared to pre-pandemic levels. There is 134,892 sq. ft. of available sublet space, consistent with earlier in the year.

Class B/C Growth

Class B/C office rents have continued to grow past their pandemic-induced decline, climbing to \$36.79/ sq. ft. Vacancy rates have spiked to 23.2% in Q3 compared to 12% in 2021 Q1, primarily driven by the TSA leaving in 2021 Q2.

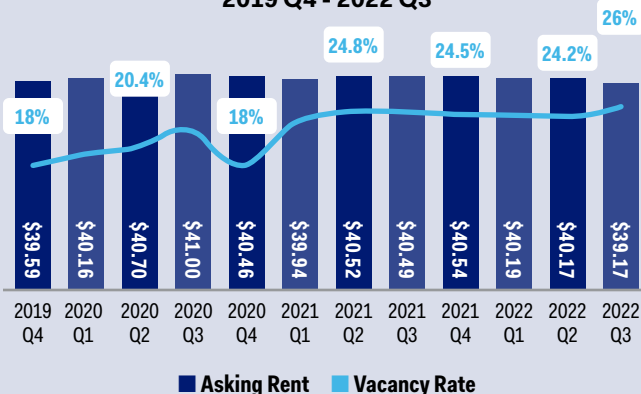
Class B/C office space saw negative absorption of 13,141 sq. ft, continuing a negative trend that started at the beginning of the pandemic. However, this is below the recent trend for DC which had negative absorption of 460,716 sq. ft. Northern Virginia had positive absorption of 26,541 sq. ft. This reflects both regional and national trends fueled primarily by a "flight to quality" as office tenants relocate to newer, smaller, and better amenitized office spaces.

Tech Innovation

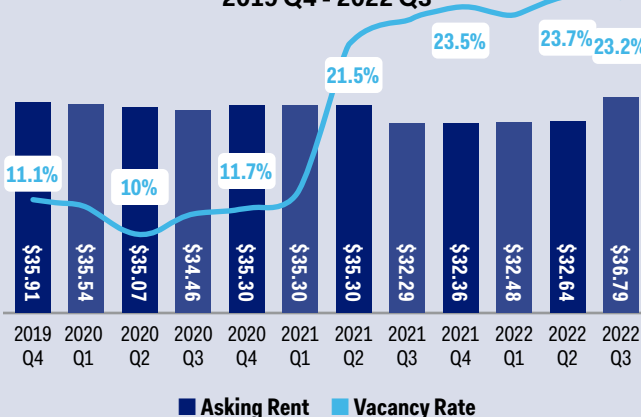
National Landing continues to serve as a living laboratory of tech innovation, attracting growing firms, like OxiWear and Federated Wireless, with high growth potential in tech this quarter. National Landing based company, OxiWear, was awarded a \$25,000 grant as a winner of Catalyst, Cellular Telecommunications and Internet Association (CTIA) Wireless Foundation's competitive grants program. This startup company produces an unobtrusive ear-wearable pulse-oximeter for continuous oxygen monitoring and low-oxygen alerting.

In September 2022, Federated Wireless, a private wireless and shared spectrum leader, announced a strategic partnership with JBG SMITH to innovate and deploy 5G Private Wireless in National Landing. As part of the agreement, Federated Wireless relocated its corporate headquarters to National Landing, occupying approximately 36,000 square feet of office space in JBG SMITH's 2121 Crystal Drive. This business has also raised \$72 million in venture capital in this year, and \$213 million since its founding in 2012.

CLASS A RENT AND VACANCY
2019 Q4 - 2022 Q3



CLASS B/C RENT AND VACANCY
2019 Q4 - 2022 Q3



VENTURE CAPITAL IN Q3 2022



New Office Lease Activity



23,000 SQF



36,000 SQF



500 SQF

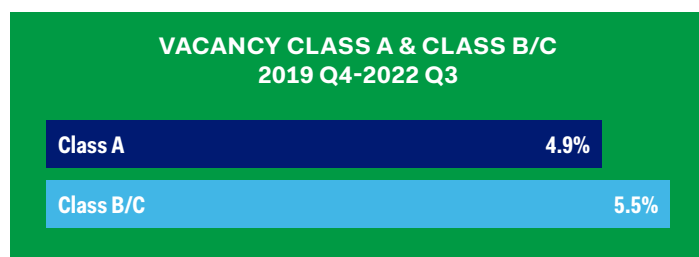
HOUSING

The multifamily sector saw a continued trend in decreasing vacancy and increasing rent rates.

Increasing Rents

Class A apartment rents are \$3.18/ sq. ft, higher than the DC MSA's Class A average of \$2.81/ sq. ft, and continue surpassing pre-COVID rent rates. Rents in National Landing have grown 8% since the beginning of 2022, over twice the DC MSA's 3% rate of growth.

Class B/C rents followed a similar trajectory in Q3, with rents in National Landing increasing to \$2.62/sq. ft., higher than the DC MSA's Class B/C average of \$2.06/ sq. ft. Since the beginning of 2022, Class B/C rents in National Landing have grown 9% - faster than the 2% rate of growth in the DC MSA over the same time period.



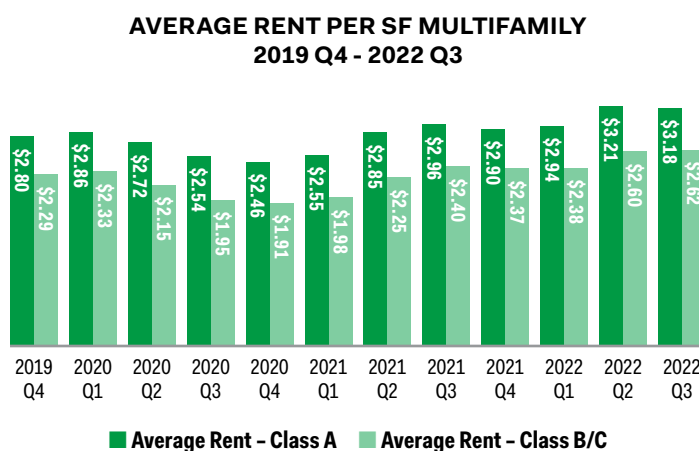
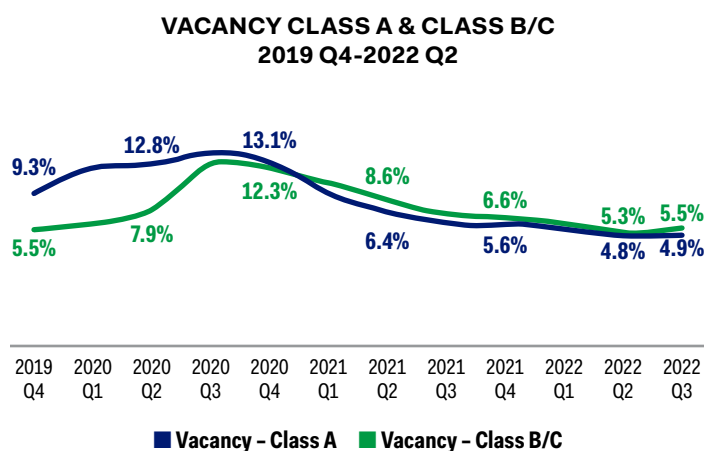
Strong Multifamily Demand

Demand for housing in National Landing continues to be strong and increasing. Vacancies dropped considerably over 2022 from 12.5% to 5.5% in Q3 2022, compared to the DC MSA which dropped from 6.0% to 5.7% this year. Currently in Q3 2022, vacancies for Class A are 4.9% and 5.5% for Class B/C. This is a significant decrease from 2020 Q4's vacancy highs of 13.1% and 12.3%, respectively.

There was a negative absorption in Class A (24 units) and in Class B/C (31 units) in 2022 Q3. Class A absorption is down from Q1 (42 units) but increased for Class B/C (29 units). In the DC MSA, net absorption was greater in 2022 Q1 than 2022 Q3 across both Class A (2,936 vs. 2,483 units) and Class B/C units (1,774 vs. 94 units).

Development

This quarter, LCOR delivered the Sage, a 19-story residential building at 12th Street and South Eads with 306 units.



HOTELS & TOURISM

The hotel sector experienced a seasonal decline of stays due to the seasonal fluctuations with tourist and business travel.

Travel

Arlington County has experienced sizeable recovery in visitation from the depths of the COVID-19 pandemic. 2022's Q3 occupancy was 71%, a dip from high of 78% in Q2 2022. Average daily rate (ADR) for Arlington in Q3 was \$157, and RevPAR of \$111. This reflects a 34% increase in daily rates and 117% increase in RevPAR from 2021. However, it is lower than the high in Q2 2022 of daily rate at \$180 and RevPAR of \$141. Reason is due to the summer peak season for tourism and business travel to Washington DC.

Decline Average Daily Rate (ADR) & (RevPAR)

The ADR for National Landing's hotels was \$162 in 2022 Q3 – a \$23.46 decrease from 2022 Q2. The decline is partially caused by standard seasonal fluctuations but indicates a rebound in hotel demand. However, this is still 4% above \$156, the ADR in the same quarter of 2019.

RevPAR in National Landing also declined in 2022 Q3 to \$116, lower than Q2 at \$147.

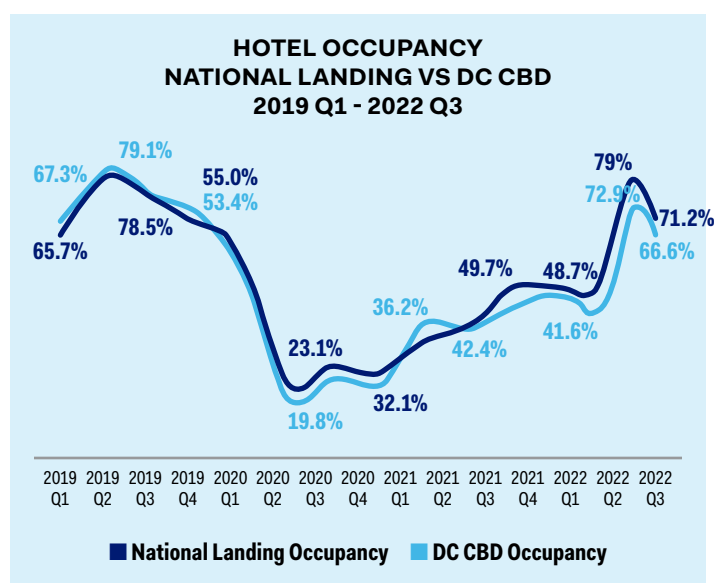
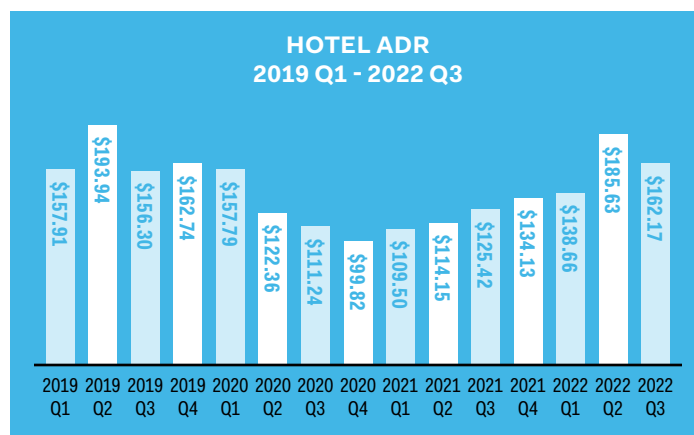
Recovering Occupancy, Outpacing DC CBD

National Landing's hotel occupancy declined to 71% in Q3, from post-pandemic high of 78% in Q2. This may be a part of National Landing's typical annual occupancy flow reflective of seasonal travel for both tourists and business travelers.

Occupancy also declined in the Washington, DC Central Business District (CBD). The DC CBD was at 67% in Q3, below post-pandemic high of 73% in Q2.

Hotel Conversions

COVID-19 has resulted in hotels shuttering across the country. In 2022 Q2, there were roughly 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 planned for redevelopment.



AMERICANA HOTEL REDEVELOPMENT SITE



SHOPPING & DINING

Storefront visitation in National Landing is close to pre-pandemic numbers, though trails behind more entertainment and retail centric districts like Capital Riverfront and Tysons.

Storefront Visitation's Recovery

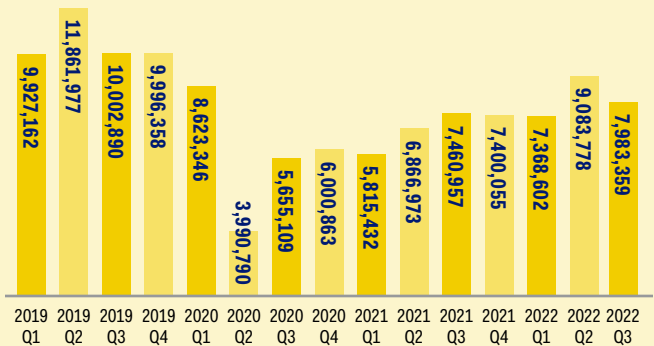
National Landing's storefront visitation is still languishing at 80% of pre-COVID visitation rates when compared to 2019 Q3. While visitation rates peaked in Q2 2022 due to the summer surge of tourists and locals spending time in National Landing's different restaurants and shops. This indicates a healthy, yet recovering, retail environment in National Landing. National Landing has recovered more visitation than DC CBD, which remains 65% of pre-COVID visitation.

In comparison to other DC Metro neighborhoods, National Landing is behind in terms of visitation recovery. Bolstered by their destination offerings around large-scale destination retail, entertainment, sports, and cultural venues, the Capital Riverfront and Tysons have achieved 95% and 85%, respectively.

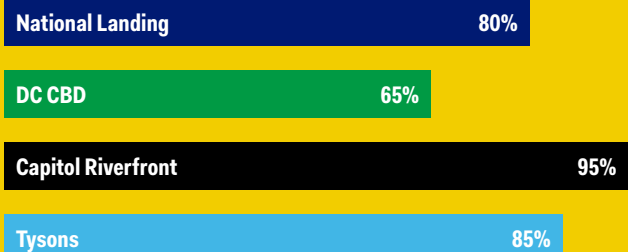
MAH-ZE-DAHR BAKERY



QUARTERLY VISITATION TO NATIONAL LANDING
2019 Q1 - 2022 Q3



Q3 VISITATION PERCENTAGE COMPARISON



New Retail Tenant:
Pepper Palace*



Closed Retail Tenants:
Athena Pallas

ATHENA PALLAS RESTAURANT

*Outside the National Landing BID Boundaries, but in the Fashion Centre at Pentagon City

EMPLOYMENT & DEMOGRAPHICS

Professional services and tech jobs grew by 16% during 2022, offsetting the decline in accommodation and food services jobs. The population also continues to grow at a faster rate than the region as a whole.

Professional, Scientific, And Technical Services Led Job Growth

Professional, scientific, and technical services are the largest industries in National Landing with 10,172 workers in 2022 – a 16% (1,400 jobs) increase in jobs since 2019 — largely driven by Amazon who has added approximately 5,000 employees to HQ2 to date. Ultimately, there could be up to 37,500 of new jobs based at the Amazon HQ2. The growth of professional, scientific, and technical services also significantly outpaces trends in DC and Northern Virginia, where this sector only grew by 3% (3,600 jobs) and 1% (2,300 jobs) in the same time period.

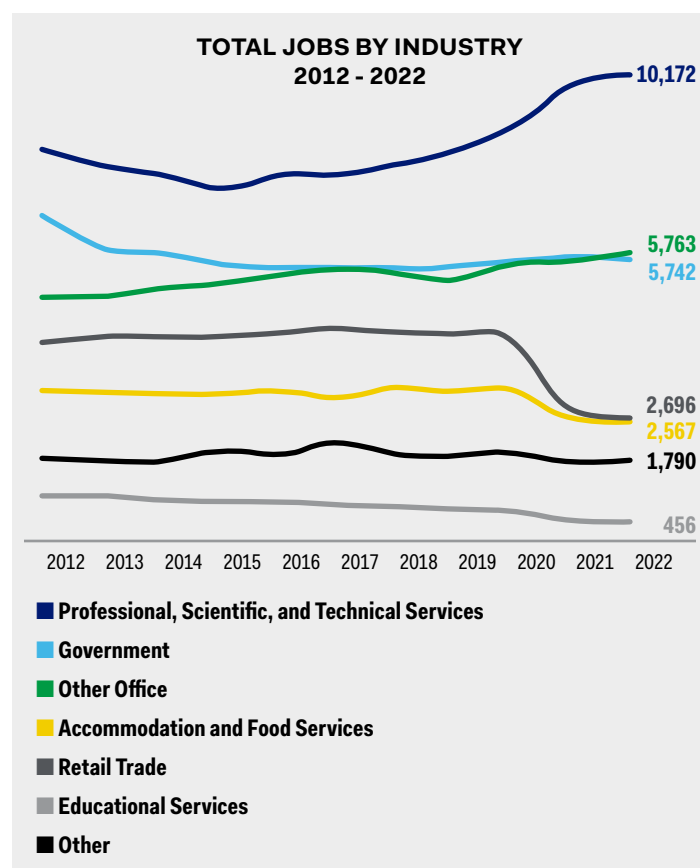
Pandemic-Related Job Losses Driven by Services

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 44% (-31,810 jobs) of its accommodation and food services jobs due to COVID-19.

Total jobs in National Landing declined by 5% from 2019 to 2022 - a loss of 1,500 jobs. In comparison, Northern Virginia had a 3% reduction in jobs (-28,000 jobs) during the same time period.

Population

National Landing's population has grown by an impressive 9% 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	2022	Change 2019-2022
Jobs	30,600	29,100	29,200	29,186	-3%
Residents	21,200	21,800	22,500	23,097	9%

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.

Q3 2022

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