

DISTRICT OF COLUMBIA OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.2	4.7	↑	6.0	↓
NET ABSORPTION (THOUSANDS SF)	(617.0)	(74.0)	↓	(118.3)	↔
DIRECT VACANCY RATE	14.5%	13.8%	↑	11.8%	↔
DIRECT VACANT SF (MSF)	21.1	20.0	↑	17.0	↔
UNDER CONSTRUCTION (MSF)	1.1	1.6	↓	3.1	↓
ASKING RENT, FULL SERVICE (PSF)	\$53.32	\$53.64	↓	\$53.88	↔
SALES VOLUME (MILLIONS)	\$17.0	\$64.8	↓	\$358.7	↔

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OFFICE CONDITIONS CONTRACTED DURING Q3

Office market conditions in the District of Columbia soured during the third quarter of 2023, with negative 617,000 SF in net absorption. This was due primarily to large move-outs outweighing large lease signings, and continued rightsizing. The direct vacancy rate increased 40 basis points to 14.5% at September 2023. Asking rents inched downward 10 basis points during the past three months, averaging \$53.32 PSF at September 2023.

We expect office market conditions to remain soft in the District of Columbia through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. This will put pressure on all constituents to explore creative solutions. Given record level availability, landlords will need to be creative in deploying hospitality approaches to make the office more desirable than alternative work options.

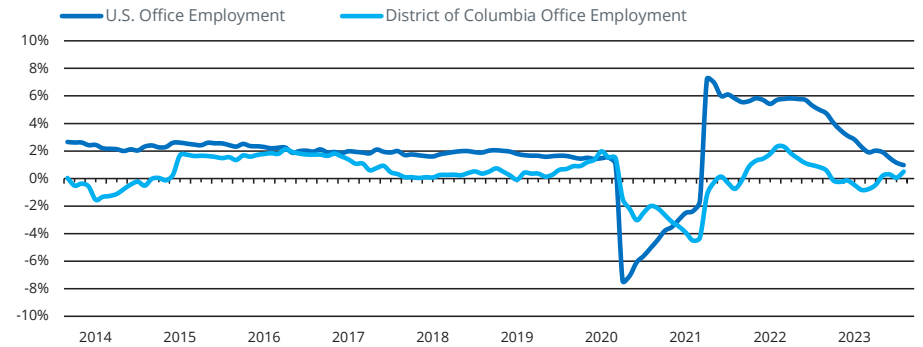


ECONOMY

Office-Using Job Growth Softening

- 11,400 new jobs were added to the District of Columbia economy during the 12-months ending August 2023, which is well-ahead of the pre-pandemic 5-year average of 9,800. This was driven by the restaurant/bars and social/civic nonprofits.
- 2,500 office-using jobs were added during the 12 months ending August 2023, which is below the pre-pandemic 5-year average of 4,800. Most of this small gain was due to information and finance/insurance companies.
- The unemployment rate for the District of Columbia is currently at 5.3% as of July 2023 and averaged 5.4% for the past three months. The rate is up from 4.7% one year ago and is down notably since the peak of 10.4% in April 2020.
- We expect office-using job growth in the District of Columbia to add just over 5,000 new jobs per year over the next five years. However, this will be softer in 2023 due to economic uncertainty, with stronger growth in later years. We expect most of the growth to occur within civic/social organizations, consulting, and tech sectors.

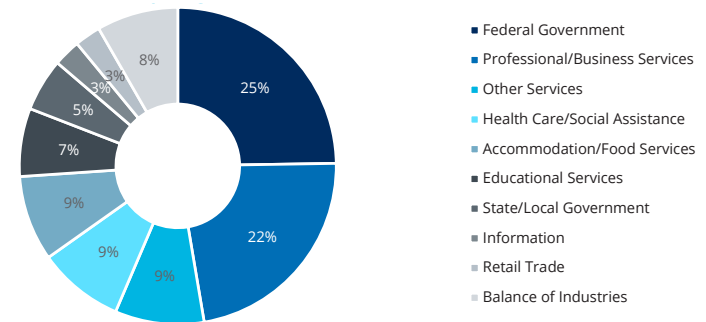
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

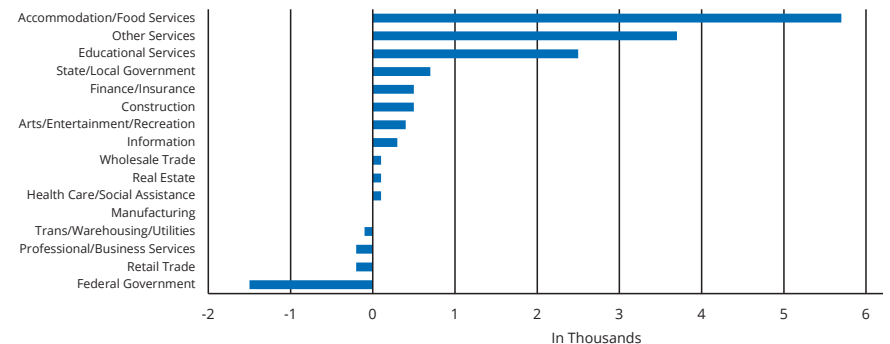
District of Columbia | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

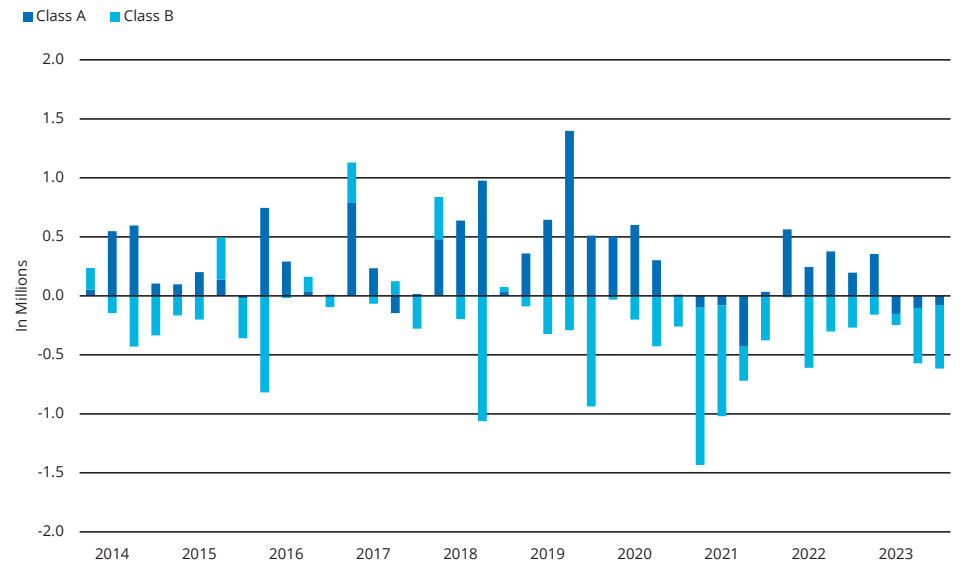


NET ABSORPTION

Large Moveouts Outweigh Midsized Lease Signings

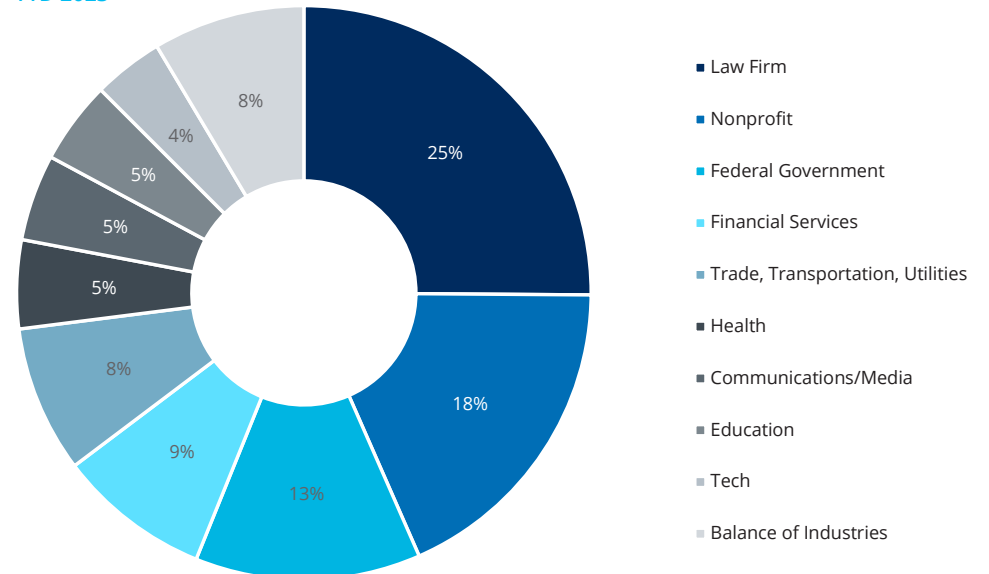
- Net absorption totaled negative 617,000 SF during the third quarter of 2023, after finishing with negative 572,000 SF during the second quarter of 2023. This compares to the third quarter of 2022 when net absorption totaled negative 74,000 SF.
- Class A net absorption totaled negative 78,000 SF, driven by multiple mid-size move outs and downsizing. This is the third quarter in a row in which Class A absorption has been negative. Class B contributed the majority with negative 538,000 SF.
- The most notable deal this quarter was American Clean Power Association, represented by Transwestern, leasing 42,405 SF at 1299 Pennsylvania Avenue, NW in the East End. The association will relocate from 1501 M Street, NW. Another notable deal was Locust Street Capital signing 21,500 SF on the 10th floor at 1307 New York Avenue, NW in the East End. The public relations firm will relocate from their owner-occupied building at 2008 Hilyer Place, NW.
- Offsetting leasing activity this quarter were multiple large to mid-sized move outs. Sterne, Kessler, Goldstein & Fox vacated 117,000 SF at 1100 New York Avenue, NW in the East End. They have since relocated to the penthouse at 1101 K Street NW from a deal they signed back in 2021. The motivation for the move was to build out a space that is flexible and remote enabling with more amenities and smaller areas to allow for collaboration according to the law firm’s website.
- We anticipate office demand will face ongoing challenges through 2024, as economic headwinds cause select tenants to pause lease decisions or right size space.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

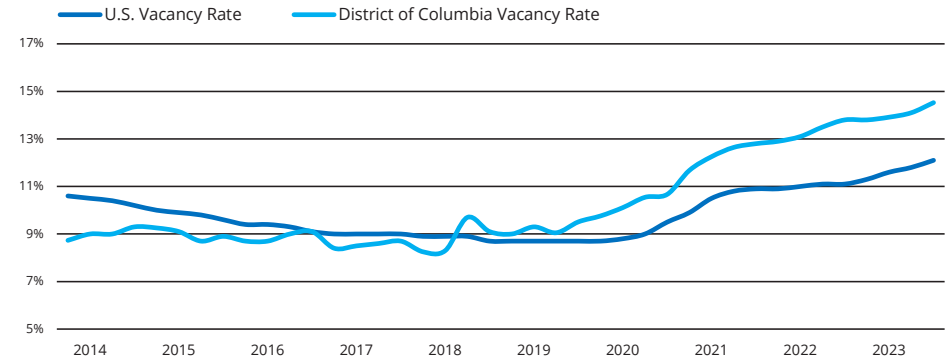


VACANCY

Vacancy Rate Continues to Rise in Q3

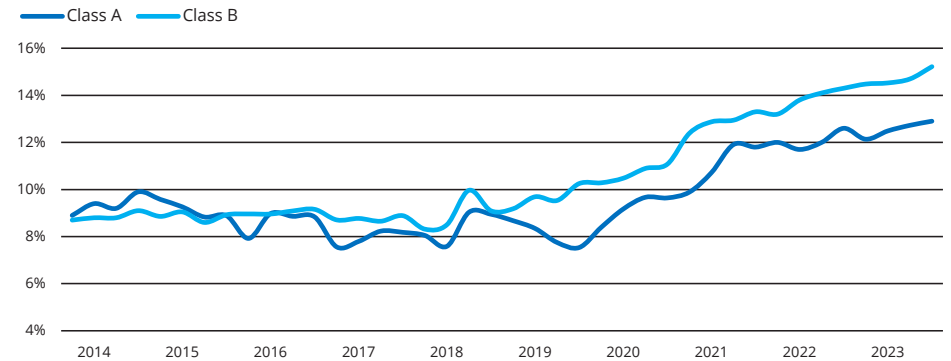
- The direct vacancy rate increased 40 basis points during the quarter to 14.5% and remains elevated from 13.8% one year ago.
- The Class A direct vacancy rate increased 20-basis points to 12.9% over the past three months and is elevated compared to 12.6% one year ago.
- The Class B/C vacancy rate increased 50 basis points to 15.2% at September 2023 and is up from 14.3% one year ago. The rise this quarter was due mostly to tenants vacating older product in the East End submarket.
- The vacancy rate will remain challenged through 2024 as tenants continue to right size. The rate could somewhat be protected if the slated obsolete office buildings get demolished in preparation for conversion to another product type. The rate for newer product will likely stabilize, while older product could continue to struggle.

DIRECT VACANCY RATE



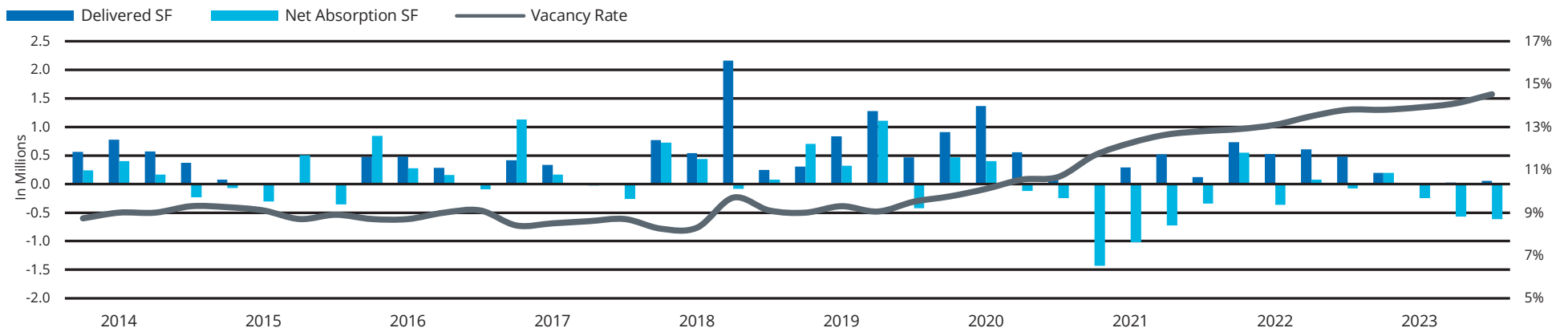
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

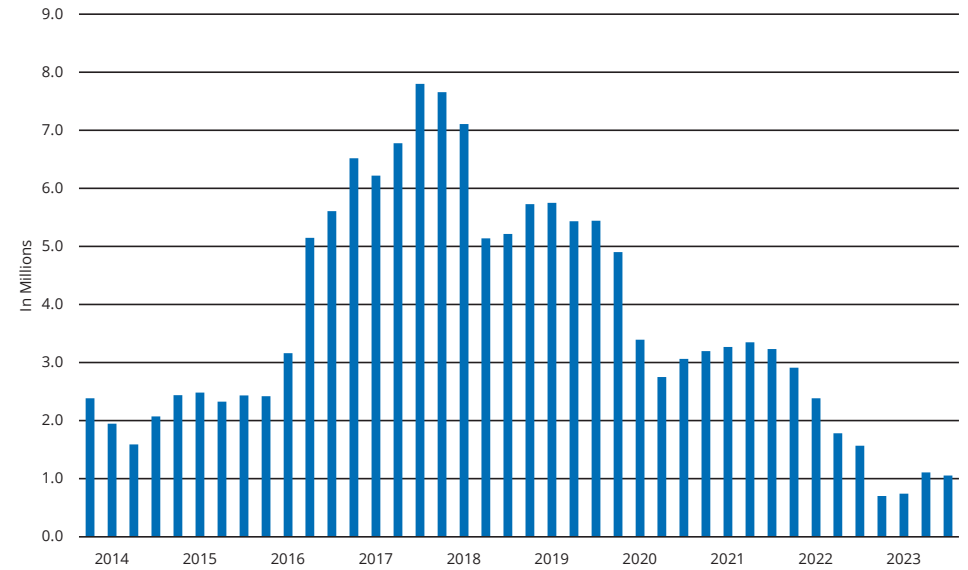


UNDER CONSTRUCTION

Construction Pipeline Down 31% YoY

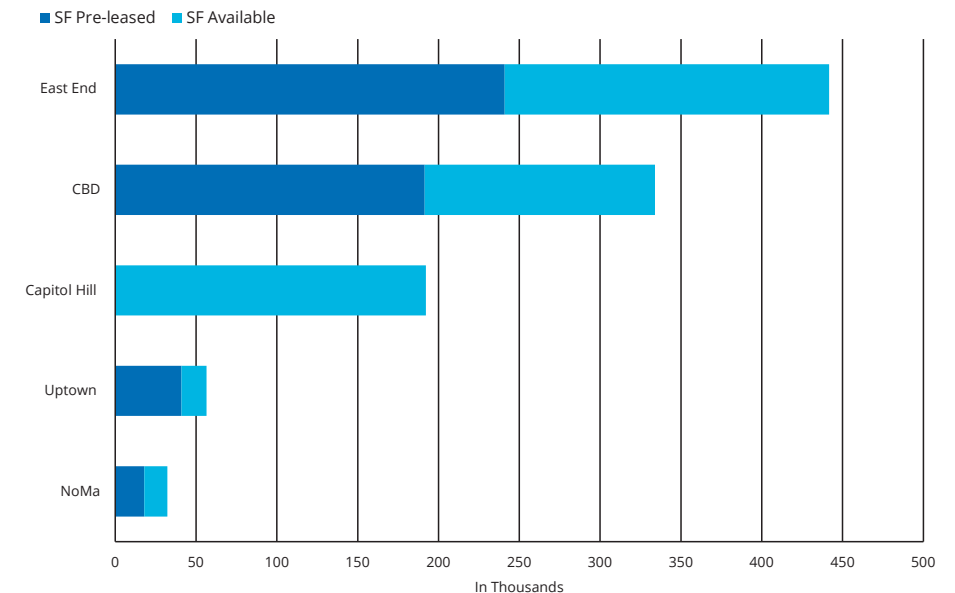
- Only one project delivered during the quarter. Akelius finished renovations on 52,157 SF at 1401 Massachusetts Avenue, NW.
- There is 1.1 million SF under construction in the District of Columbia, with majority of the construction concentrated in the CBD and East End. Projects in the pipeline are currently 46% pre-leased. This is down from 1.6 million SF one year ago.
- One notable project is the mixed-use development at 20 Massachusetts Avenue, NW in the Capitol Hill submarket. This project will bring 197,000 SF of space to the market when it delivers by late 2023. Amenities include a penthouse, 80 seat conference center, and a state-of-the-art fitness center. Another recent project is 600 5th Street, NW developed by Stonebridge and Rockefeller Group. The project will bring 400,000 SF of Class A inventory to the East End submarket. This building is already halfway pre-leased with the law firm Crowell & Moring who signed a 199,000 SF lease last quarter.
- The construction pipeline will continue to decelerate as developers analyze the current economic climate. Select owners will remain patient and look for conversion or renovation opportunities for flight to quality. Overall, this will ultimately help balance supply/demand fundamentals in due time.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

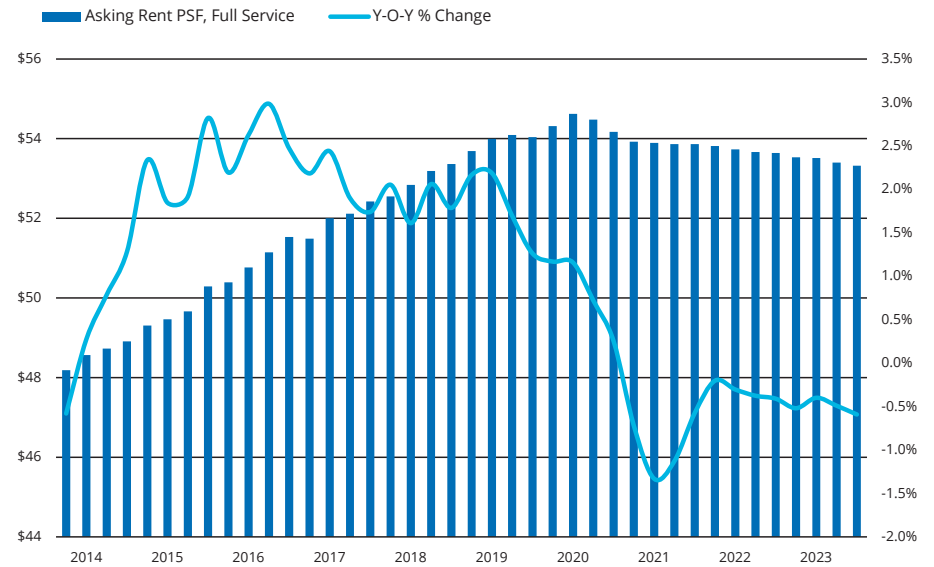


RENTAL RATES

Asking Rents Reduced Slightly During the Quarter

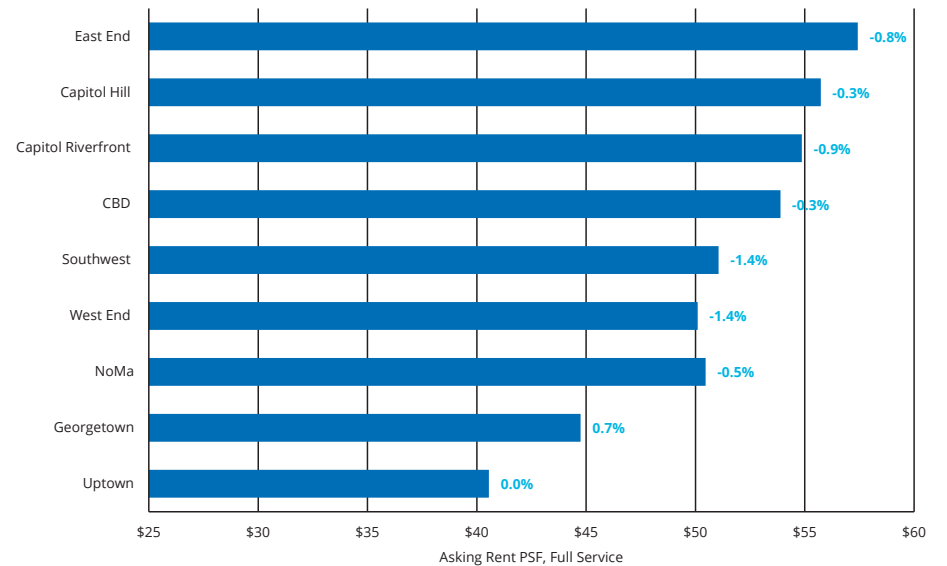
- Asking rents declined slightly during the quarter, decreasing 10 basis points to \$53.32 PSF in September 2023. Year-over-year, rents are down 60 basis points.
- Class A asking rents inched downward landing at \$56.97 PSF, while Class B/C decreased to \$44.89 PSF.
- Rent growth is the strongest in the Georgetown submarket year-over-year, rising 0.7%. Offsetting this gain was West End and Southwest, which both reduced 1.4%.
- Concession packages are elevated in the District of Columbia and will likely remain so through 2024, which will put downward pressure on effective rates. Tenant improvement allowances averaged \$126 PSF, and free rent averaged 22.3 months for a typical 10-year or longer term on a new lease since the start of 2023. This compares to \$127 PSF and 18.9 months during 2022.
- We anticipate limited asking rent growth in 2023. Newer space should garner greater rent gains due to continued demand and quality product coming on-line. However, older properties will likely be challenged as tenants vacate in favor of flight to quality.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

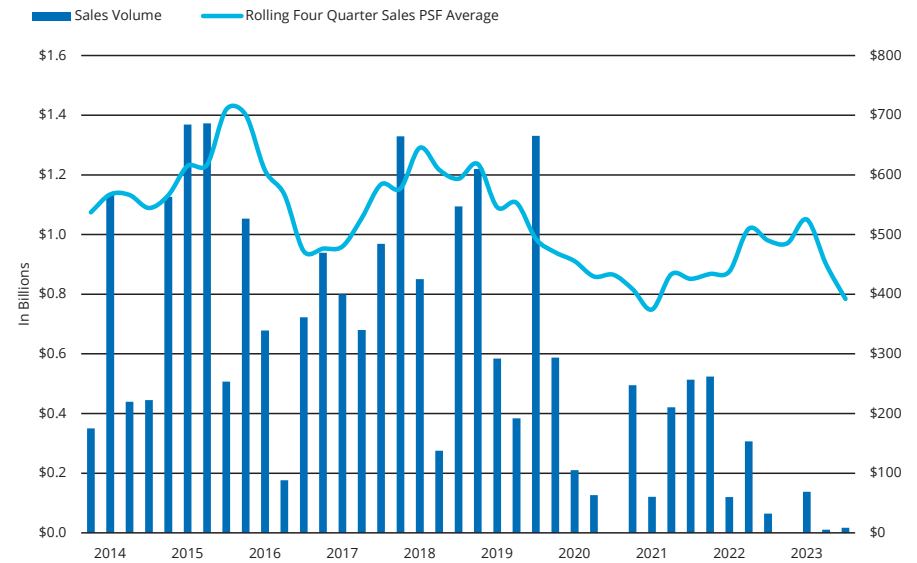


SALES

Investment Sales Remains Sluggish in Q3 2023

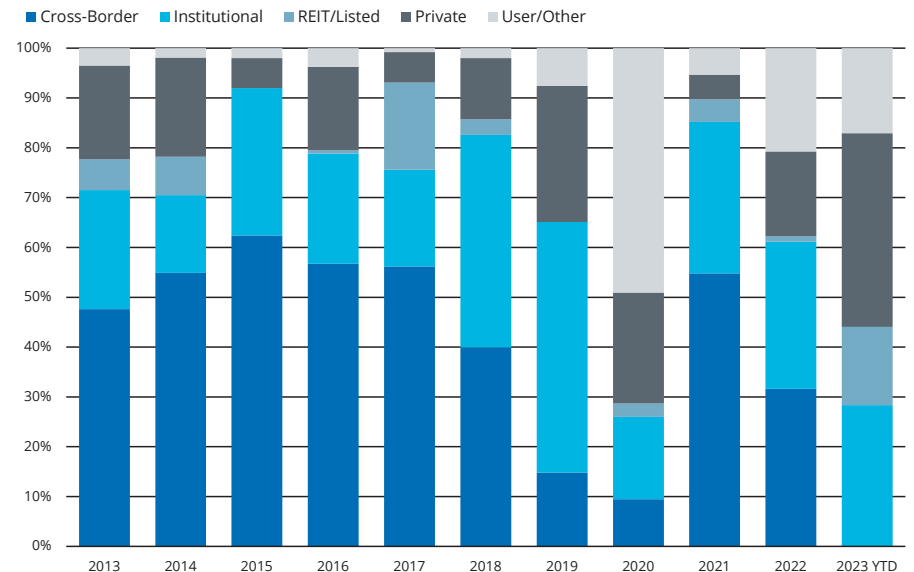
- There were two sale transactions in the third quarter of 2023 totaling \$16.9 million or \$150 PSF.
- Douglas Legum Development purchased 1411 K Street NW, a 89,172 SF Class B asset in the East End from TA Realty for \$9.1 million or \$102 PSF. MetTel purchased 816 Connecticut Avenue, NW another Class B asset in the CBD for \$7.8 million or \$333 PSF.
- Nationally, single property sales continue to rise as owners look to buoy their portfolios by shedding lower performing assets and providing deal flow for small and mid-cap investors. Critical to this success is the availability of assumable debt or seller financing.
- Elevated interest rates continue to stifle investment volume across all property sectors as debt remains difficult to acquire. The office market largely remains in a period of price discovery. With office valuations declining, opportunistic buyers will have the chance to purchase quality assets for pennies on the dollar in due time.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern


BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
GSA - SECRET SERVICE	1100 L St NW	East End	Renewal	78,722
GSA - COURT SERVICES & OFFENDER SUPERVISION AGENCY (CSOSA)	800 North Capitol St NW	NoMa	Renewal	73,421
KELLEY DRYE AND WARREN LLP	670 Maine Ave SW	Southwest	New Lease	65,000
CAREFIRST BLUECROSS BLUESHIELD	840 1st St NE	NoMa	Renewal & Downsizing	62,010
TEXAS A&M	1620 L St NW	CBD	Renewal	47,418
AMERICAN CLEAN POWER ASSOCIATION 	1299 Pennsylvania Ave NW	CBD	New Lease	42,405

 = Transwestern deal

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1411 K ST NW	East End	Aug-23	\$9,100,250	89,172	\$102	Douglas Legum Development Inc.	TA Realty
816 CONNECTICUT AVE NW	CBD	Aug-23	\$7,873,250	23,615	\$333	MetTel	Greenstone Realty Advisors
3500-3518 CONNECTICUT AVE NW	Uptown	Jun-23	\$10,400,000	17,661	\$589	Martin Diamond Properties	Grosvenor Americas, Inc.
1050 17TH ST NW	CBD	Mar-23	\$59,812,500	154,000	\$388	Hines	The Lenkin Company
2021 K ST NW	CBD	Jan-23	\$78,250,000	162,000	\$483	Welltower Inc.	TF Cornerstone, Inc.
1801 L ST NW	CBD	Jul-22	\$64,750,000	199,846	\$324	Empire Leasing, Inc.	The Kaplan Family

 = Transwestern deal

Source: CoStar, Real Capital Analytics, Transwestern.



MARKET INDICATORS

All Classes of Space | Q3 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, FULL SERVICE
CBD	42,852,148	6,616,372	15.4%	16.5%	334,000	(103,000)	77,000	\$53.88
EAST END	48,752,797	7,503,055	15.4%	16.5%	441,617	(395,000)	(812,000)	\$57.43
CAPITOL HILL	6,204,902	1,041,183	16.8%	18.0%	192,156	1,000	119,000	\$55.73
NOMA	11,915,358	869,821	7.3%	7.5%	32,251	(178,000)	(265,000)	\$50.46
CAPITOL RIVERFRONT	5,762,589	561,276	9.7%	13.2%	0	38,000	(60,000)	\$54.87
SOUTHWEST	13,153,644	1,554,761	11.8%	11.9%	0	76,000	32,000	\$51.06
GEORGETOWN	2,964,995	901,951	30.4%	30.7%	0	(63,000)	(253,000)	\$44.74
WEST END	3,892,187	548,798	14.1%	18.0%	0	(8,000)	(121,000)	\$50.10
UPTOWN	9,573,793	1,476,279	15.4%	16.4%	56,476	15,000	42,000	\$40.55
TOTAL	145,072,413	21,073,496	14.5%	15.6%	1,056,500	(617,000)	(1,241,000)	\$53.32

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the District of Columbia. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

ABOUT TRANSWESTERN

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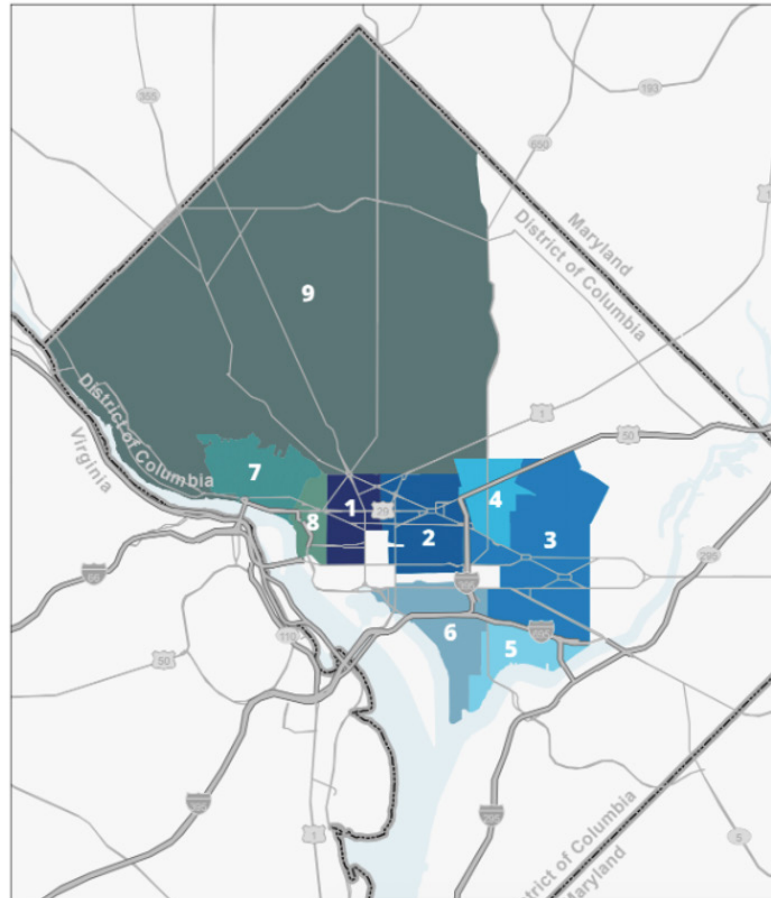
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District of Columbia Office Submarkets

- 1 CBD
- 2 East End
- 3 Capitol Hill
- 4 NoMa
- 5 Capitol Riverfront
- 6 Southwest
- 7 Georgetown
- 8 West End
- 9 Uptown