TRANSWESTERN

DISTRICT OF COLUMBIA OFFICE MARKET

Q4 2023

TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.1	4.3	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(217.0)	195.0	↓	(164.2)	↔
DIRECT VACANCY RATE	14.8%	13.8%	↑	12.1%	↔
DIRECT VACANT SF (MSF)	21.5	20.0	↑	17.5	↔
UNDER CONSTRUCTION (MSF)	0.9	0.7	↑	2.8	↓
ASKING RENT, FULL SERVICE (PSF)	$53.26	$53.53	↓	$53.86	↔
SALES VOLUME (MILLIONS)	$190.9	$0.0	↑	$307.2	↔

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

OFFICE CONDITIONS DECLINED DURING Q4

Office market conditions in the District of Columbia deteriorated during the fourth quarter of 2023, with negative 217,000 SF in net absorption. This was due primarily to large Class B move-outs and continued rightsizing. The direct vacancy rate increased 30 basis points to 14.8% at December 2023. Asking rents inched downward 10 basis points during the past three months, averaging $53.26 PSF at December 2023.

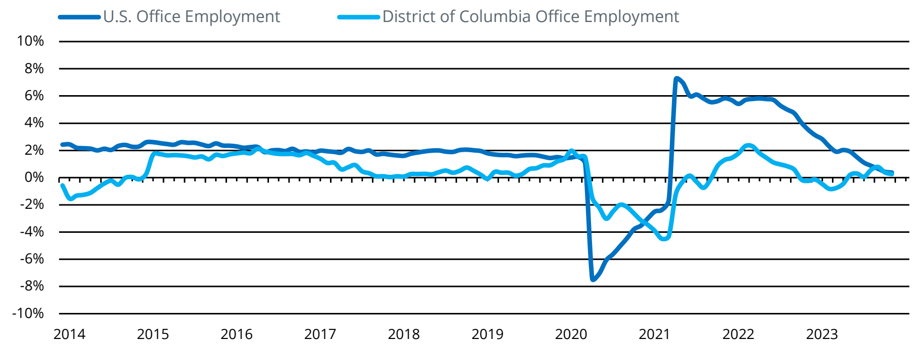
We expect office market conditions to remain soft in the District of Columbia through 2024, as future move-outs and rightsizing, coupled with limited leasing activity, will drag the overall market. Top tier space will remain in demand, with most of the pressure on Class B product. Although demolitions and conversions of obsolete office product to alternative property types will help, it will not be the entire solution. The recent news of the possible relocation of the Washington Capitals and Wizards out of the East End to Alexandria, could give some tenants pause about the future of this DC submarket.

ECONOMY

Office-Using Job Growth Mild Year-over-Year

- 7,300 new jobs were added to the District of Columbia economy during the 12-months ending November 2023, which is below the pre-pandemic 5-year average of 9,800. This was driven by the restaurant/bars, social/civic nonprofits, and educational services.
- 1,300 office-using jobs were added during the 12 months ending November 2023, which is below the pre-pandemic 5-year average of 4,800. Most of this gain was due to the social/civic nonprofits which added 2,500 jobs during this period. Offsetting this was the federal government losing 1,600 jobs.
- The unemployment rate for the District of Columbia is currently at 5.2% as of October 2023 and averaged 5.3% for the past three months. The rate is up from 4.3% 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 5,600 new jobs per year over the next five years. We expect most jobs to be created within the federal government, civic/social organizations, and consulting tech sectors.

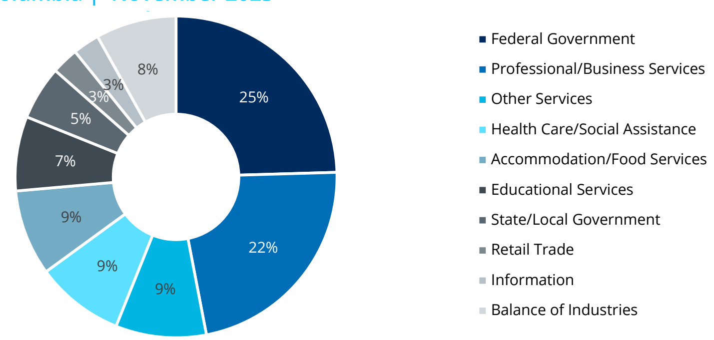
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

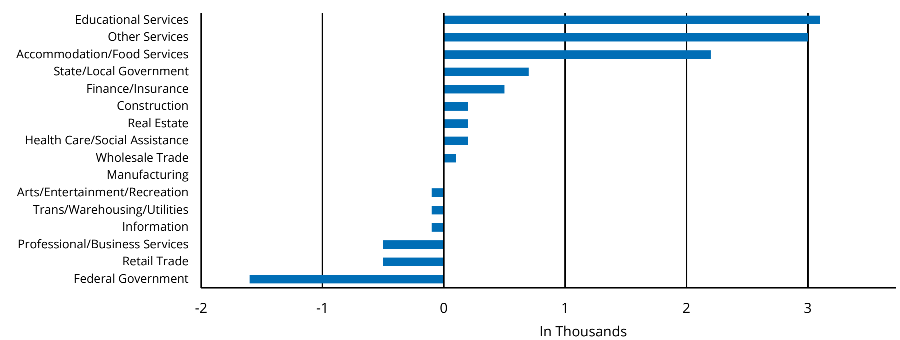
Dsictrict of Columbia | November 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Dsictrict of Columbia



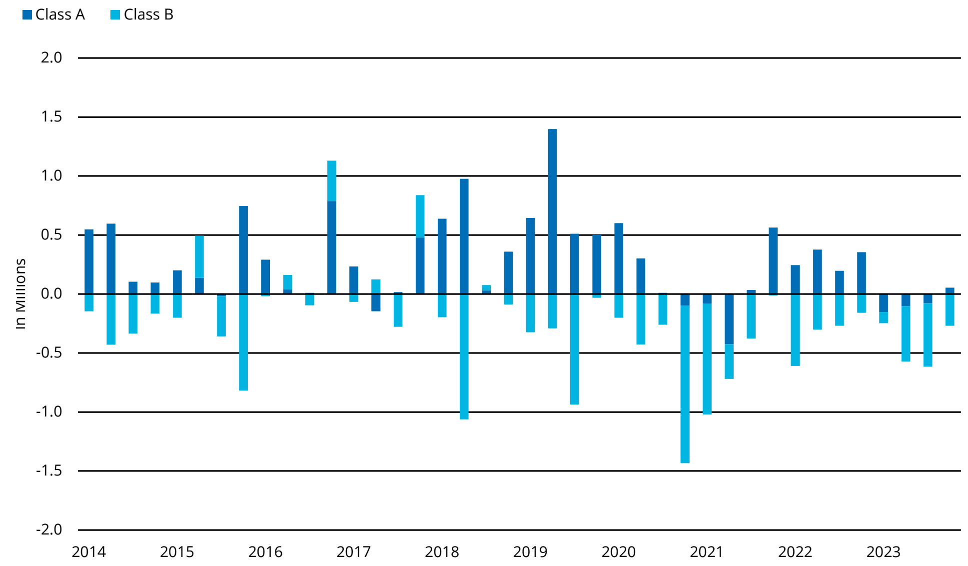
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

Flight to Quality Continues as Class B Struggles in Q4

- Net absorption totaled negative 217,000 SF during the fourth quarter of 2023, after finishing with negative 617,000 SF during the third quarter of 2023. This compares to the fourth quarter of 2022 when net absorption totaled positive 195,000 SF.
- Class A net absorption totaled positive 54,000 SF, driven by multiple mid-size leases coupled with minimal large moveouts. Class B contributed the majority with negative 270,000 SF.
- The most notable deal this quarter was International Research & Exchanges Board leasing 32,899 SF at 1350 Eye Street, NW in the East End. The association will relocate from 1275 K Street, NW. Another notable deal was American Chemistry Council signing a 93,000 SF deal at 655 New York Avenue, NW. The association is moving from 700 2nd Street, NE where they had been since 2008. Part of the motivation for the move was better proximity to the White House to show their commitment to advocate for all aspects of chemistry at the highest level of government, according to Bisnow.
- Offsetting leasing activity this quarter were multiple large to mid-sized move outs. SmartBrief vacated 31,152 SF at 555 11th Street, NW in the East End. Another large moveout was Skadden Arps giving back 42,043 SF at 700 14th Street NW also in the East End.
- We anticipate office demand will face ongoing challenges through 2024, as select tenants pause lease decisions or right size space. Another layer to lease decisions is safety concerns occurring throughout the city, which has decision makers reconsidering leasing in select areas.

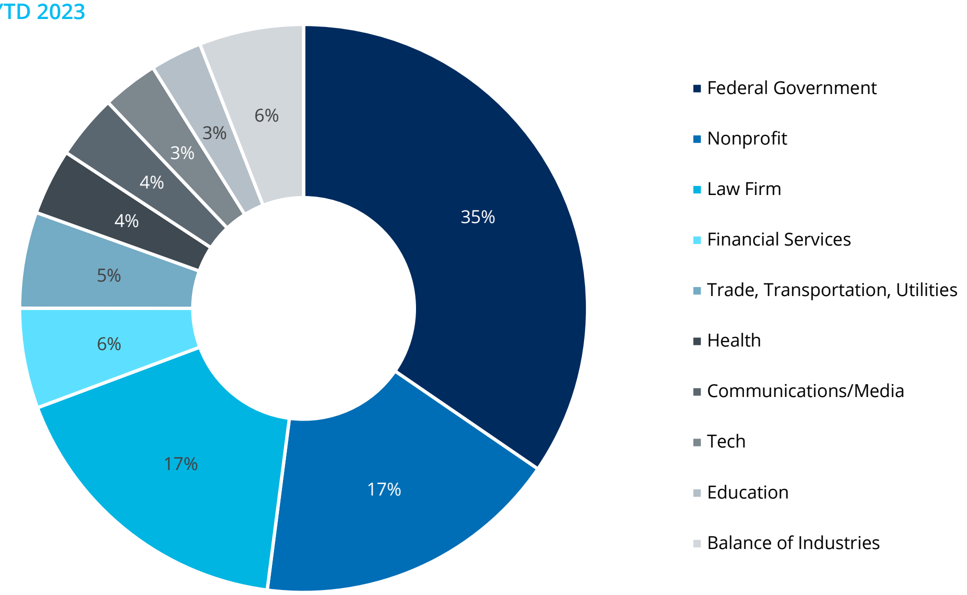
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2023



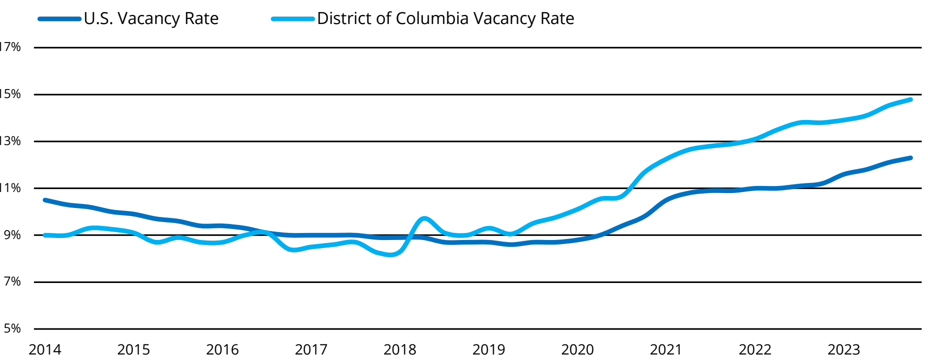
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Continues Upward Trend in Q4

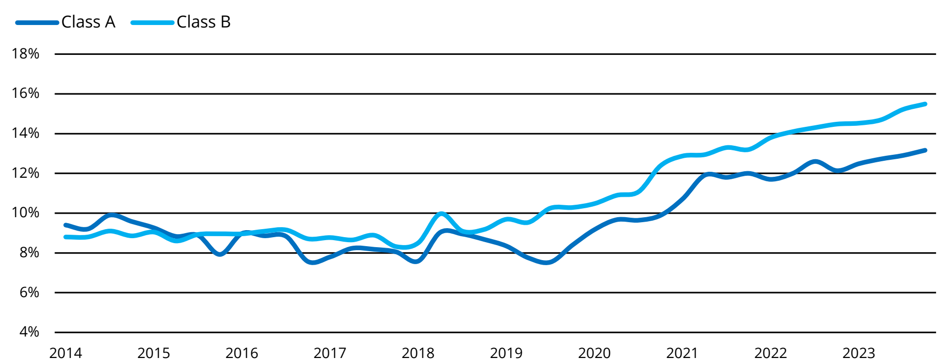
- The direct vacancy rate increased 30 basis points during the quarter to 14.8% and remains elevated from 13.8% one year ago.
- The Class A direct vacancy rate increased 30-basis points to 13.2% over the past three months and is elevated compared to 12.1% one year ago. The increase in vacancy is due mostly to 20 Massachusetts Avenue, NW delivering vacant.
- The Class B/C vacancy rate increased 30 basis points to 15.5% at December 2023 and is up from 14.5% one year ago. The rise this quarter was due mostly to tenants vacating older product in the East End and CBD submarkets.
- 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



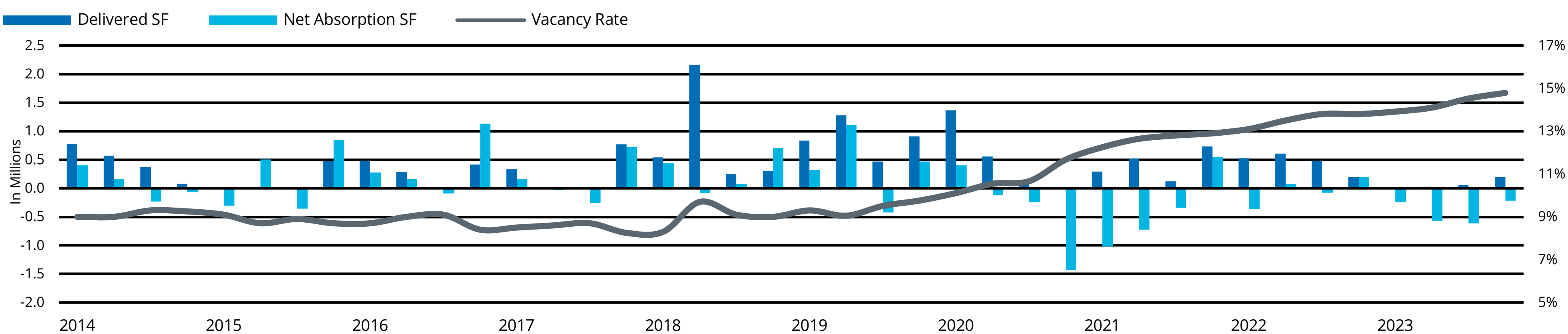
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



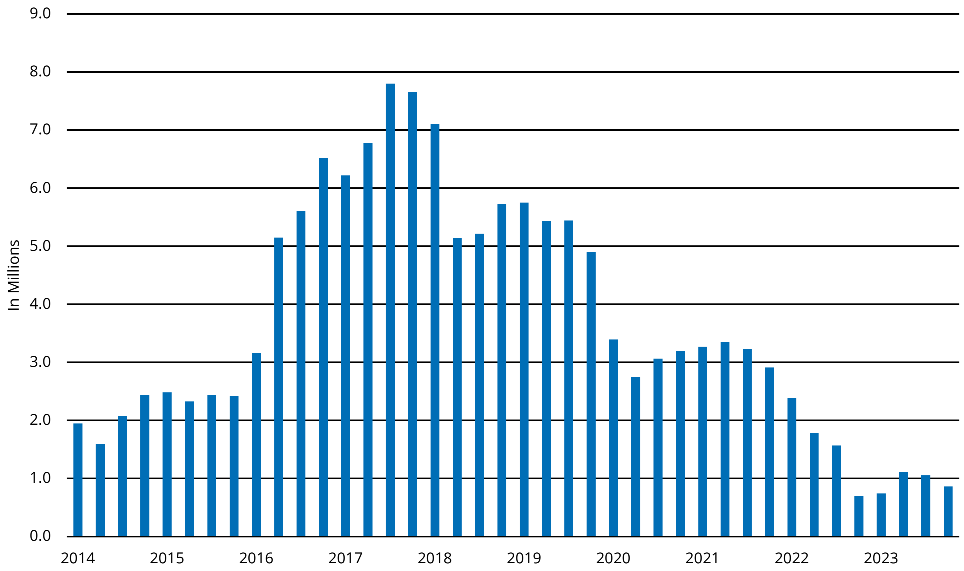
Source: CoStar, Transwestern

UNDER CONSTRUCTION

20 Massachusetts Avenue Delivers in Q4

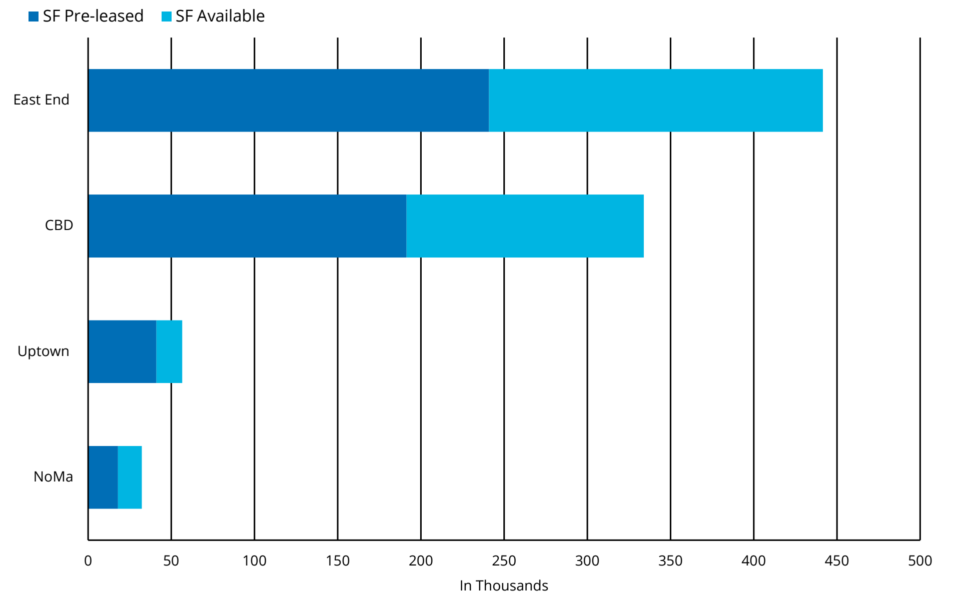
- Only one project delivered during the quarter. Office Properties Income Trust delivered the 192,156 SF mixed use project at 20 Massachusetts Avenue, NW in the Capitol Hill submarket.
- There is 864,344 SF under construction in the District of Columbia, with majority of the construction concentrated in the CBD and East End. Projects in the pipeline are currently 57% pre-leased. This is up from 700,960 SF one year ago.
- One notable project is 1700 M Street, NW in the CBD submarket. This project will bring 334,000 SF of space to the market and is expected to deliver by May 2024. This project is currently 57% pre-leased with Gibson Dunn & Crutcher as the largest tenant leasing 164,000 SF. Another recent project is 600 5th Street, NW developed by Stonebridge and Rockefeller Group. The project will bring 400,000 SF to the East End submarket. This building is approximately 50% pre-leased with the law firm Crowell & Moring who signed a 199,000 SF lease earlier in 2023.
- 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



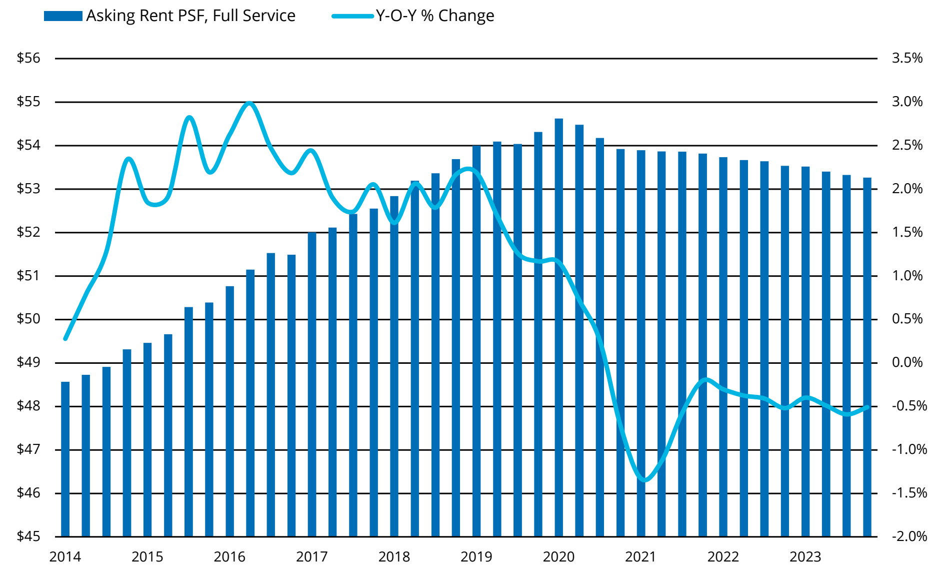
Source: CoStar, Transwestern

RENTAL RATES

Asking Rents Continue to Inch Downward

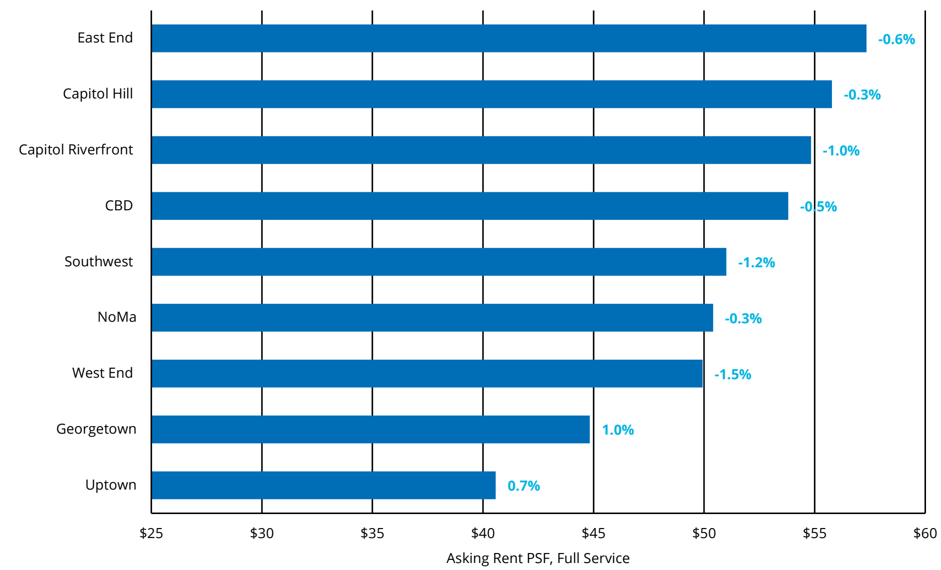
- Asking rents declined slightly during the quarter, decreasing 10 basis points to $53.26 PSF in December 2023. Year-over-year, rents are down 50 basis points.
- Class A asking rents inched downward landing at $56.93 PSF, while Class B/C decreased to $44.77 PSF.
- Rent growth is the strongest in the Georgetown submarket year-over-year, rising 1.0%. Offsetting this gain was West End, which reduced 1.5%.
- 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 $125 PSF, and free rent averaged 22.9 months for a typical 10-year or longer term on a new lease during 2023. This compares to $127 PSF and 18.9 months during 2022.
- We anticipate limited asking rent growth into 2024. Newer space should garner greater rent gains due to continued demand and quality product coming on-line. While rent growth may be limited, landlords will continue to be aggressive with their concession packages to be able to maintain occupancy in a difficult time for the market.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



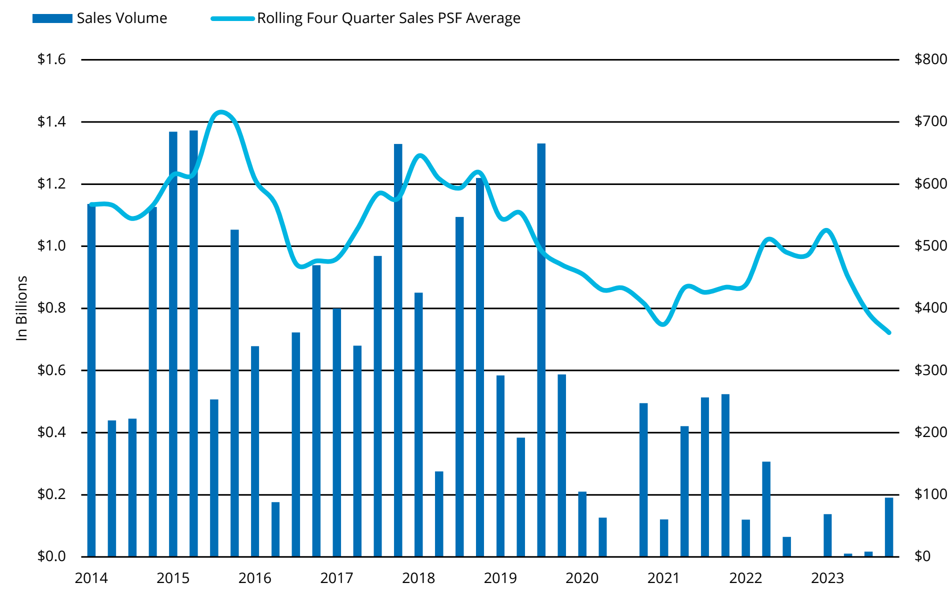
Source: CoStar, Transwestern

SALES

Investment Sales Remain Limited in Q4 2023

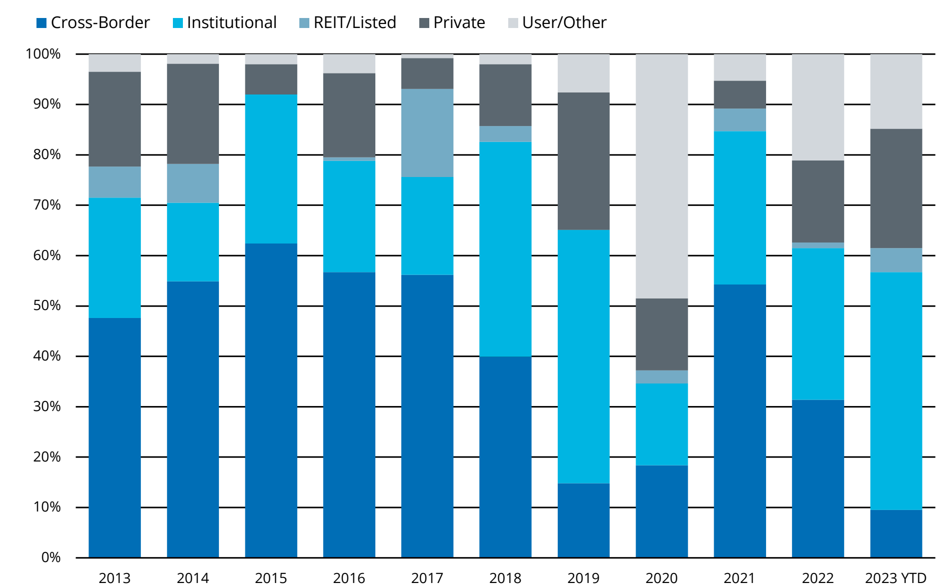
- There were two transactions in the fourth quarter of 2023 totaling $190.9 million or $267 PSF. One deal to highlight was HR NAREF purchasing 1250-1280 Maryland Avenue, SW, a 536,000 SF Class A asset in the Southwest submarket from LNR Partners.
- According to the Washington Business Journal, 1250-1280 Maryland Avenue, SW has been eyed for a conversion to apartments with the potential of adding three additional floors and having 450 units of residential. This would be one of the largest conversions of recent years.
- With downtown vacancy rates continuing to rise, office values have been depressed much through 2023 and expected to be in 2024. Coupling this with Monumental Sports' purposed plan to move both the Capitals and Wizards to Potomac Yards could further decrease foot traffic in downtown DC which could impact the surrounding office property values as well.
- 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 debt maturities still set to occur into 2024, opportunistic capital will be looking for distressed assets that they can purchase at a discounted rate.

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
U.S. SECURITIES AND EXCHANGE COMMISSION	100 F St NE	NoMa	Renewal	712,000
U.S. SECURITIES AND EXCHANGE COMMISSION	600 2nd St NE	NoMa	Renewal	356,994
U.S. FEDERAL AVIATION ADMINISTRATION	950 L'Enfant Plaza SW	Southwest	Renewal	99,585
AMERICAN CHEMISTRY COUNCIL	655 New York Ave Nw	East End	New Lease	93,000
UNITED STATES SECRET SERVICE	1100 L St NW	East End	Renewal	78,722
COHEN, MILLSTEIN, SELLERS & TOLL	1100 New York Ave NW	East End	Renewal & Downsizing	41,281

= Transwestern deal
Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1250-1280 MARYLAND AVE SW	Southwest	Dec-23	$154,870,000	536,000	$289	HP NAREF I 1250 Maryland Investments	LNR Partners
1250 EYE ST NW	East End	Dec-23	$36,000,000	177,906	$202	Kairos Investment Management Co	DSC Partners
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

= Transwestern deal
Source: CoStar, Real Capital Analytics, Transwestern.

MARKET INDICATORS

All Classes of Space | Q4 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	6,757,784	15.8%	16.9%	334,000	(141,000)	(227,000)	$53.80
EAST END	48,752,797	7,512,806	15.4%	16.5%	441,617	(10,000)	(851,000)	$57.34
CAPITOL HILL	6,397,058	1,250,625	19.6%	20.7%	0	(17,000)	27,000	$55.79
NOMA	11,915,358	881,736	7.4%	7.5%	32,251	(12,000)	(279,000)	$50.40
CAPITOL RIVERFRONT	5,762,589	576,259	10.0%	13.4%	0	(15,000)	(6,000)	$54.83
SOUTHWEST	13,153,644	1,558,707	11.9%	12.0%	0	(4,000)	9,000	$51.01
GEORGETOWN	2,964,995	945,833	31.9%	32.2%	0	(44,000)	(298,000)	$44.83
WEST END	3,892,187	548,798	14.1%	18.0%	0	0	(31,000)	$49.94
UPTOWN	9,573,793	1,450,430	15.2%	16.2%	56,476	26,000	3,000	$40.57
TOTAL	**145,264,569**	**21,482,978**	**14.8%**	**15.9%**	**864,344**	**(217,000)**	**(1,653,000)**	**$53.26**

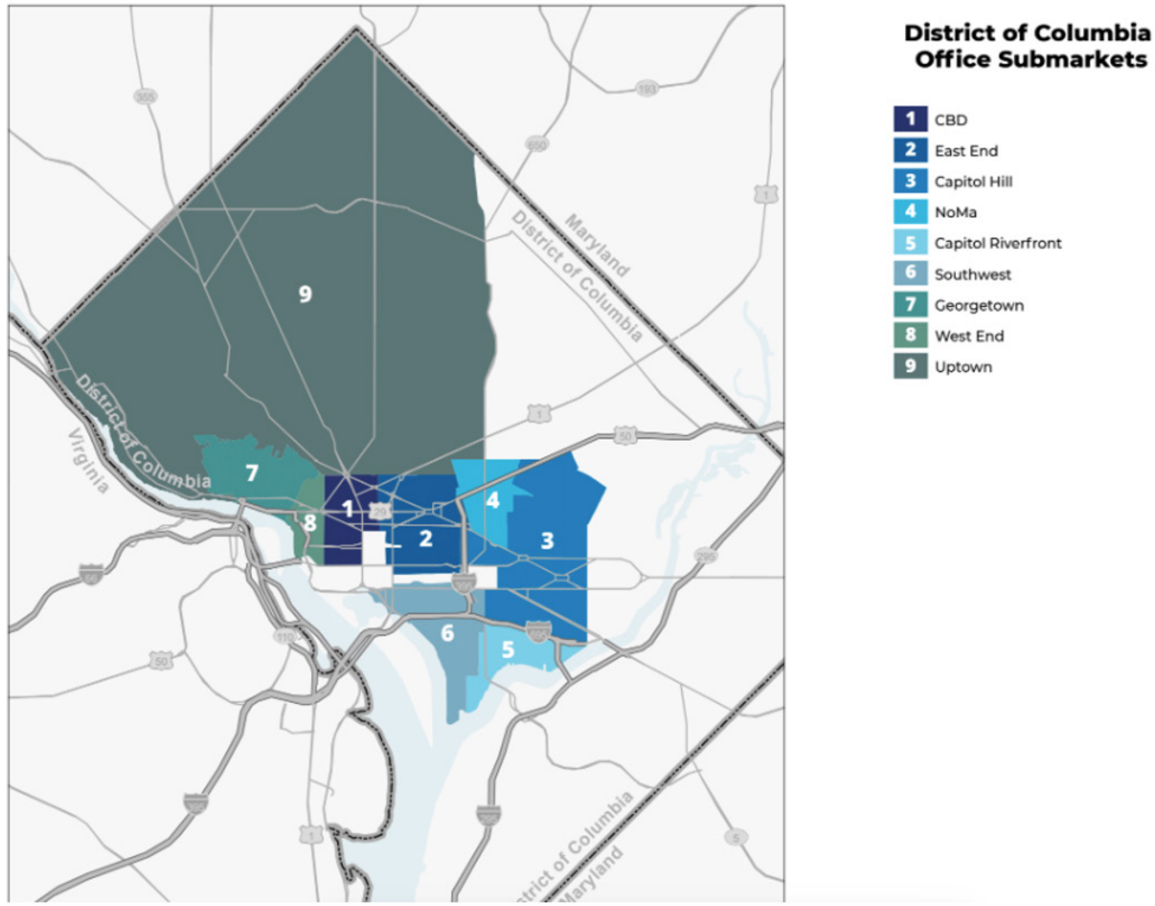
Source: CoStar, Transwestern

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

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com and @Transwestern.



FOR MORE INFORMATION

Elizabeth Norton

Senior Managing Research Director
Research Services
Elizabeth.Norton@transwestern.com
202-775-7026

Jared Reinson

Research Analyst | Research Services
Elizabeth.Norton@transwestern.com
Jared.Reinson@transwestern.com
202-775-7030