

DISTRICT OF COLUMBIA OFFICE MARKET

Q1 2024



TRENDLINES

	Q1 2024	Q1 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	4.3	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(496.0)	(248.0)	↓	(180.0)	↔
DIRECT VACANCY RATE	14.8%	13.9%	↑	12.3%	↔
DIRECT VACANT SF (MSF)	21.5	20.2	↑	17.7	↔
UNDER CONSTRUCTION (MSF)	0.8	0.7	↑	2.8	↓
ASKING RENT, FULL SERVICE (PSF)	\$53.21	\$53.52	↓	\$53.83	↔
SALES VOLUME (MILLIONS)	\$428.3	\$138.1	↑	\$313.0	↔

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

OFFICE CONDITIONS DECLINED DURING Q1

Office market conditions in the District of Columbia deteriorated during the first quarter of 2024, with negative 496,000 SF in net absorption. This was due primarily to large Class B move-outs and continued rightsizing. The direct vacancy rate remained constant at 14.8% at March 2024 due to conversion and demolition of obsolete product in the market. Asking rents inched downward 10 basis points during the past three months, averaging \$53.21 PSF at March 2024.

Economic uncertainty will impact overall demand in 2024, as tenants show caution inking new deals and most lease transactions right size. These headwinds will limit leasing activity and drag the overall market. The pipeline has eased notably which will help even out supply/demand fundamentals. In addition, several obsolete office buildings are slated to convert or be demolished, which will further help stabilize the market.

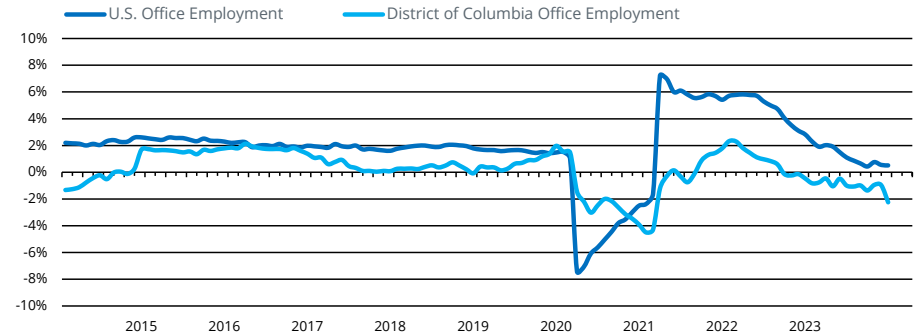


ECONOMY

Office-Using Jobs Decline in Q1 2024

- 4,300 new jobs were added to the District of Columbia economy during the 12-months ending January 2024, which is below the pre-pandemic 5-year average of 9,800. This was driven by the federal government and healthcare/social assistance industry.
- 200 office-using jobs were lost during the 12 months ending January 2024, which is below the pre-pandemic 5-year average of 4,800. Most of this loss was due to the professional/business services industry which lost 2,400 jobs during this period. Offsetting this was the federal government gaining 2,500 jobs.
- The unemployment rate for the District of Columbia is currently at 5.2% as of January 2024 and averaged 4.8% for the past three months. The rate is up from 4.9% 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.

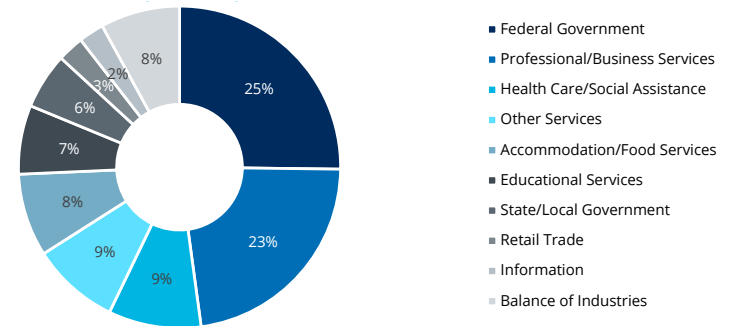
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

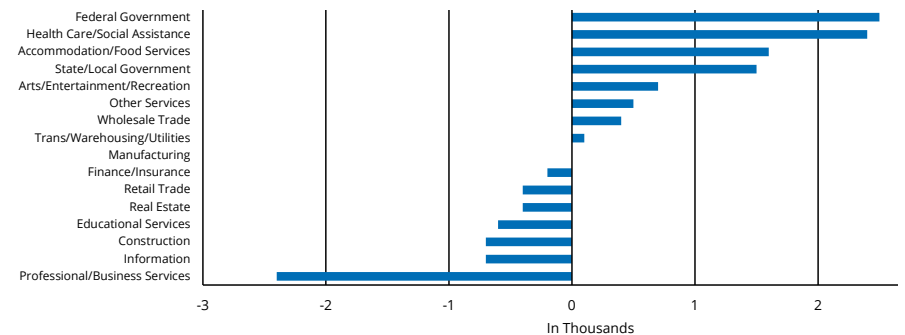
District of Columbia | January 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

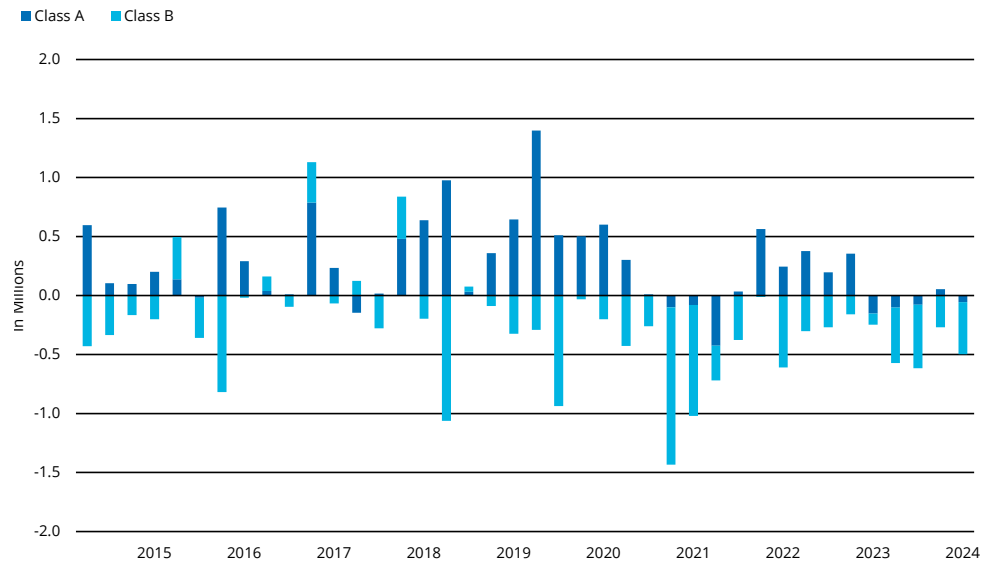


NET ABSORPTION

East End Struggles to Start the Year

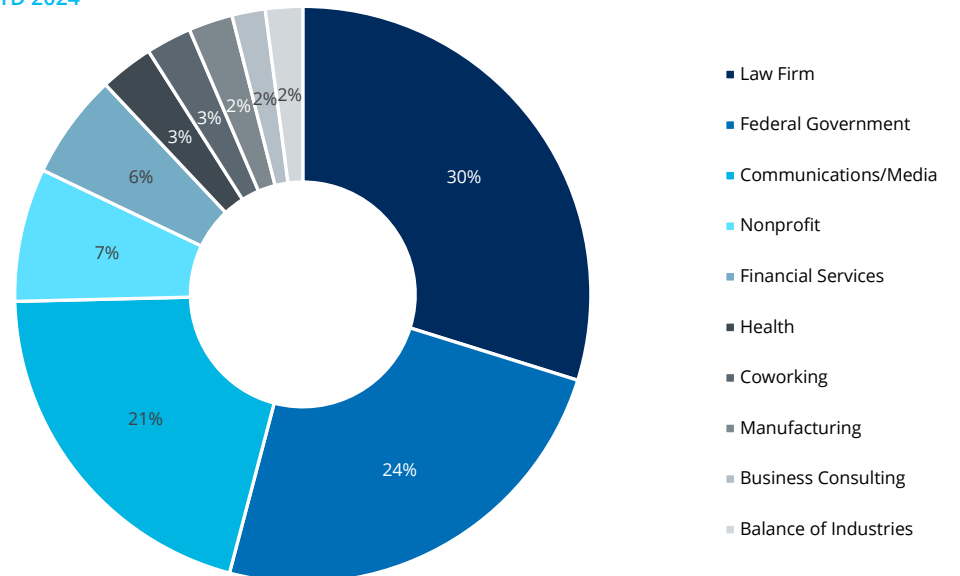
- Net absorption totaled negative 496,000 SF during the first quarter of 2024, after finishing with negative 217,000 SF during the fourth quarter of 2023. Year-over-year totaled negative 1.9 million SF, which is the second worst absorption since the height of COVID.
- Class A net absorption totaled negative 56,000 SF over the past three months, driven by, mid-sized moveouts outweighing lease signings. Class B contributed the majority with negative 442,000 SF.
- The most notable deal this quarter was Zuckerman Spaeder leasing 40,531 SF at 2100 L Street, NW in the CBD. The law firm will relocate from 1800 M Street, NW. Motivation for the move included significant annual rent savings as well as an increase in workspace efficiency. Two additional notable deals that occurred this quarter were American Council for Life Insurers and Clearpath both signing at 300 New Jersey Avenue, NW in the Capitol Hill submarket for a total of 39,300 SF.
- Offsetting leasing activity this quarter were multiple large to mid-sized move outs. Orrick vacated 129,265 SF at 1152 15th Street, NW in the East End as they have since moved to 2100 Pennsylvania Avenue, NW. Another large moveout was Blue Cross Blue Shield giving back 82,252 SF at 1310 G 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. Tenants will likely continue to analyze their options in neighboring submarkets due to the ability to receive quality space at a lesser rate as well as the safety concerns they face in the city.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

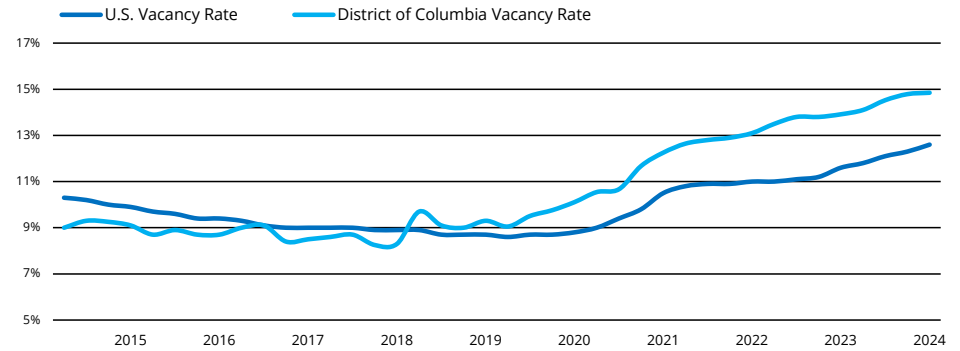


VACANCY

Removal of Obsolete Product Aids Vacancy Rate in Q1 2024

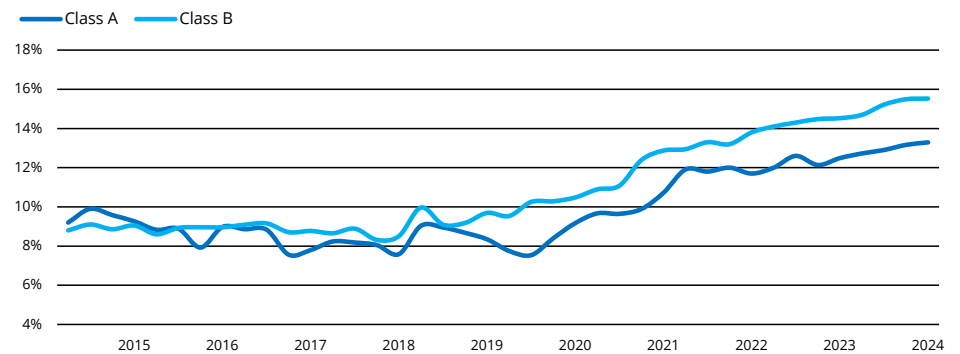
- The direct vacancy rate remained the same as last quarter settling at 14.8% but remains elevated from 13.9% one year ago.
- The Class A direct vacancy rate increased 10-basis points to 13.3% over the past three months and is elevated compared to 12.5% one year ago. The rise in Class A vacancy this quarter was due mostly to a few large moveouts in East End.
- The Class B/C vacancy rate remained unchanged at 15.5% at March 2024 but is up from 14.5% one year ago. The unchanged vacancy rate is due to several demolitions and conversions of obsolete office product into other property types.
- The vacancy rate will be under pressure during 2024 as tenants continue to right size. The rate could somewhat be protected if more 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



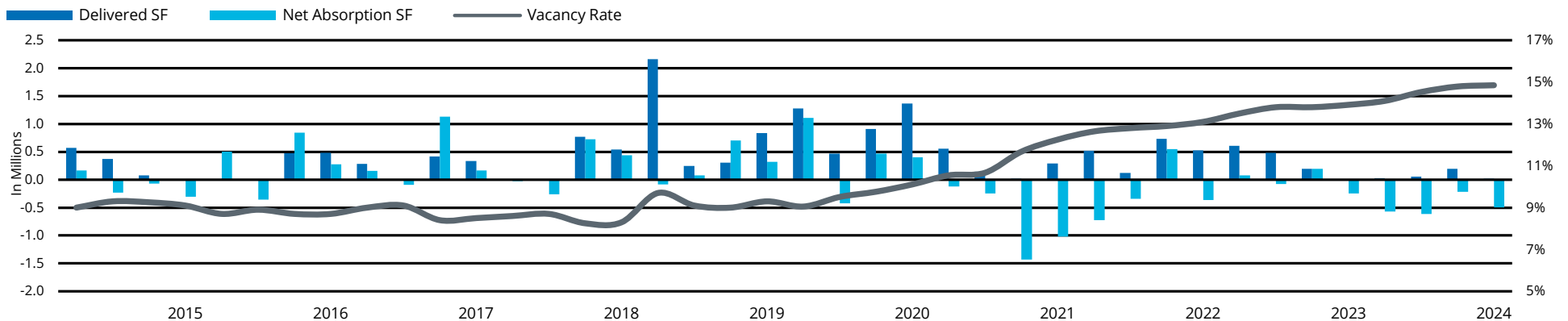
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

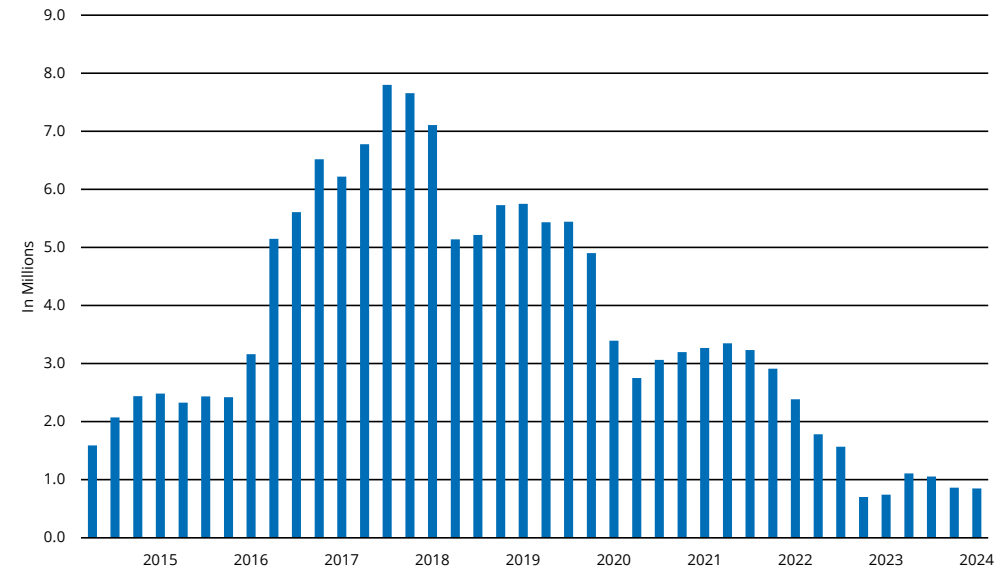


UNDER CONSTRUCTION

Construction Activity Limited to Start 2024

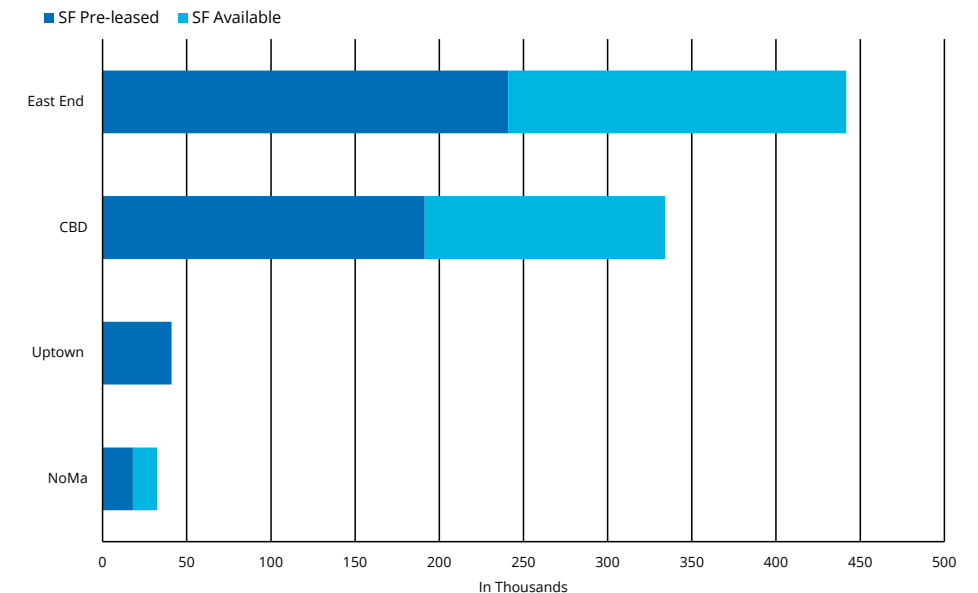
- There is 848,868 SF under construction in the District of Columbia, with majority of the construction concentrated in the CBD and East End. Projects in the pipeline are currently 58% pre-leased. This is up from 741,960 SF one year ago, but down significantly from the 7.8 million SF during 2017.
- One 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 already halfway pre-leased with the law firm Crowell & Moring who signed 199,000 SF in 2023.
- Multiple demolitions and conversions occurred during the quarter which will help the overall market in due time. A total of five office assets across Georgetown, NoMa, Uptown, East End, and CBD submarkets have been removed from our office inventory, for a total of 497,214 SF.
- The construction pipeline will continue to decelerate as developers analyze the current economic climate. Construction pricing and interest rates remain high, which will delay certain projects. 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 time.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

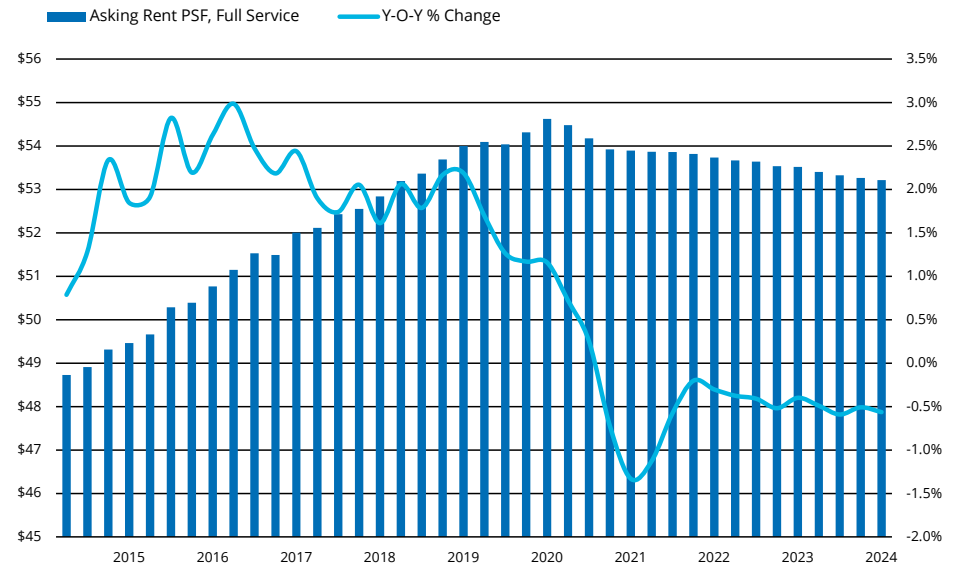


RENTAL RATES

Asking Rents Continue to Decline in Q1 2024

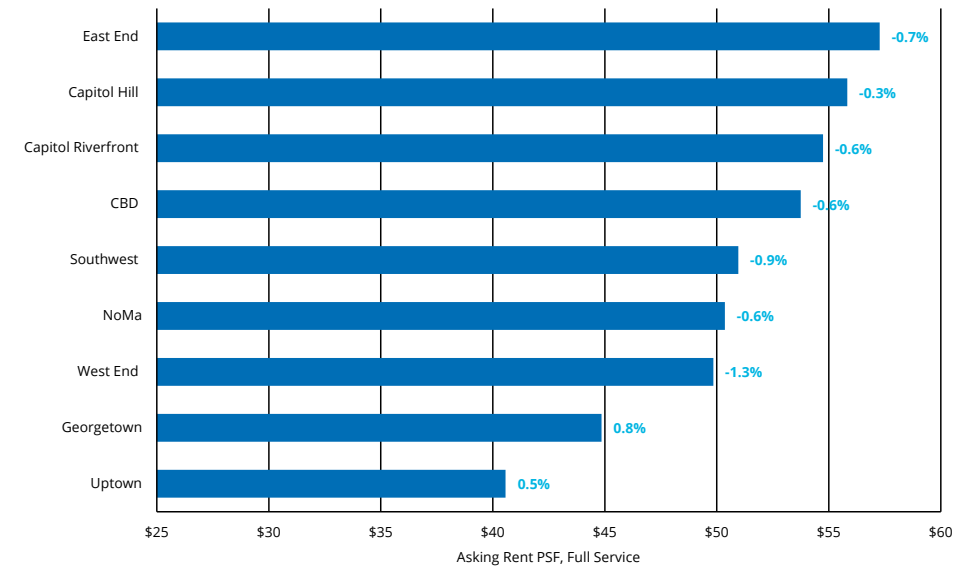
- Asking rents declined slightly during the quarter, decreasing 10 basis points to \$53.21 PSF in March 2024. Year-over-year, rents are down 60 basis points.
- Class A asking rents inched downward landing at \$56.91 PSF, while Class B/C decreased 30 basis points to \$44.66 PSF.
- Rent growth is the strongest in the Georgetown submarket year-over-year, rising 0.8%. Offsetting this gain was West End, which reduced 1.3%.
- Concession packages are elevated in the District of Columbia, which will put downward pressure on effective rates. Tenant improvement allowances averaged \$130 PSF, and free rent averaged 20.0 months for a typical 10-year or longer term on a new lease during the first quarter of 2024. This compares to \$125 PSF and 22.9 months during 2023.
- We anticipate limited asking rent growth during 2024. Landlords facing financial headwinds in offering generous concessions could lower the asking rent to compete. While rent growth may be limited, landlords with the ability will 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

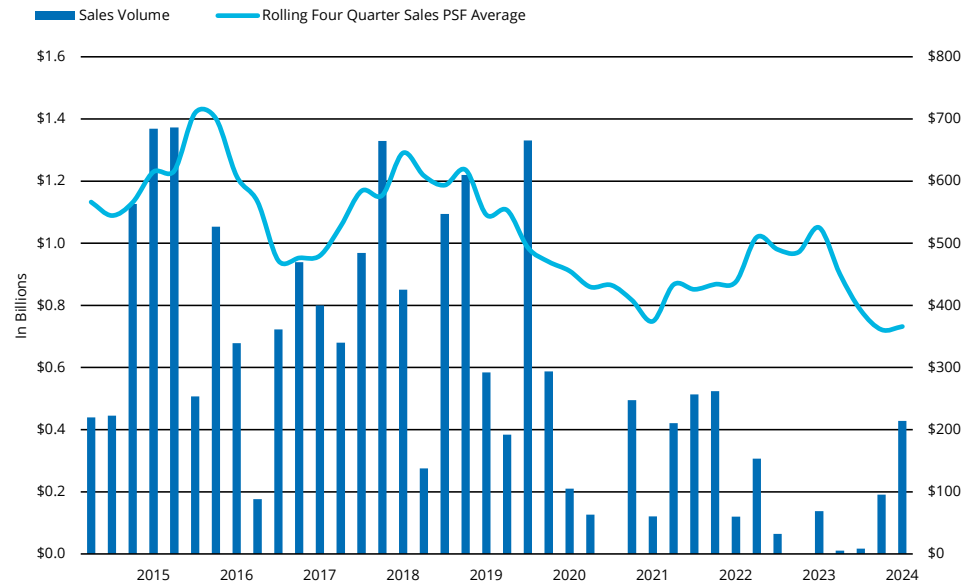


SALES

Market Square Trades to Start the Year

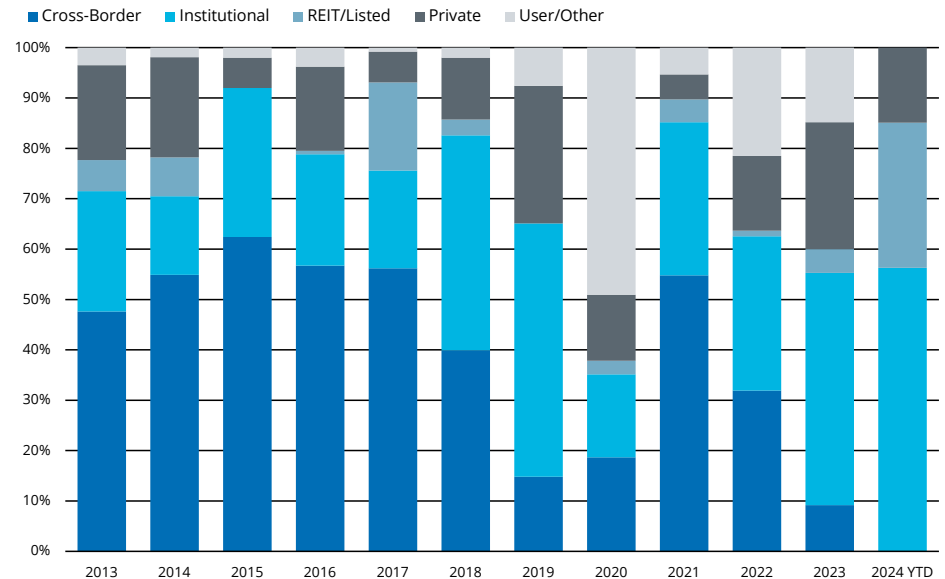
- There were four transactions in the first quarter of 2024 totaling \$428.3 million or \$457 PSF. This is the highest total transaction amount since Q4 2021.
- The most notable deal that occurred over the quarter was the partnership of PRP LLC and Morning Calm Office Finance purchasing 701 and 801 Pennsylvania Avenue, NW for a total of \$323 million or \$457 PSF from the joint venture of Blackstone and PIMCO. PRP's motivation to purchase the asset included the fact that it is a trophy asset in a great location with a strong rent roll according to the Washington Business Journal.
- With downtown vacancy rates continuing to rise, office values have been depressed throughout most 2023 and into 2024. The current market conditions and safety concerns could further decrease foot traffic in downtown DC which in turn could impact the surrounding office property values.
- Elevated interest rates continue to restrain investment volume across all property sectors as debt remains challenging to acquire. The office market largely remains in a period of price discovery. With office debt maturities still set to occur throughout 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
THE WASHINGTON POST	1301 K St NW	East End	Renewal	297,176
DC DEPARTMENT OF GENERAL SERVICES	1101 4th St SW	Southwest	Early Restructure	274,122
FINNEGAN, HENDERSON, FARABOW, GARRETT & DUNNER	901 New York Ave Nw	East End	Renewal	214,408
FEDERAL AVIATION ADMINISTRATION	950 L'Enfant Plaza	Southwest	Renewal	99,585
SULLIVAN & CROMWELL	1700 New York Ave NW	CBD	Renewal	72,152
THE INTERNATIONAL BANK FOR RECONSTRUCTION & DEVELOPMENT	1899 Pennsylvania Ave NW	CBD	Renewal	56,796

= Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1099 NEW YORK AVE NW	East End	Mar-24	\$95,000,000	180,878	\$525	Quadrangle Development Corp.	Credit Suisse
701 PENNSYLVANIA AVE NW	CBD	Mar-24	\$159,650,080	348,039	\$459	PRP Real Estate Investment Management	Blackstone Inc.
801 PENNSYLVANIA AVE NW	CBD	Mar-24	\$163,359,920	359,437	\$454	PRP Real Estate Investment Management	Blackstone Inc.
1616 H ST NW	CBD	Feb-24	\$10,300,000	48,174	\$214	1616 H Street NW LLC	The National Grange
919 18TH ST NW	CBD	Dec-23	\$16,250,000	105,643	\$154	Michael Scott Thomas Dungan	EPIC, LLC
1250 EYE ST NW	East End	Dec-23	\$36,000,000	177,906	\$202	Kairos Investment Management Co	DSC Partners

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



MARKET INDICATORS

All Classes of Space | Q1 2024

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	42,795,309	6,757,379	15.8%	16.6%	334,000	(56,000)	(275,000)	\$53.75
EAST END	48,465,746	7,609,122	15.7%	16.6%	441,617	(383,000)	(1,234,000)	\$57.27
CAPITOL HILL	6,397,058	1,210,323	18.9%	19.6%	0	40,000	96,000	\$55.82
NOMA	11,834,698	807,126	6.8%	7.0%	32,251	(6,000)	(304,000)	\$50.36
CAPITOL RIVERFRONT	5,762,589	593,547	10.3%	12.2%	0	(17,000)	35,000	\$54.74
SOUTHWEST	13,153,644	1,598,168	12.2%	12.4%	0	(39,000)	(10,000)	\$50.96
GEORGETOWN	2,936,331	948,435	32.3%	32.3%	0	(31,000)	(239,000)	\$44.85
WEST END	3,892,187	568,259	14.6%	18.5%	0	(19,000)	(31,000)	\$49.85
UPTOWN	9,545,269	1,406,973	14.7%	14.7%	41,000	15,000	59,000	\$40.57
TOTAL	144,782,831	21,499,332	14.8%	15.6%	848,868	(496,000)	(1,903,000)	\$53.21

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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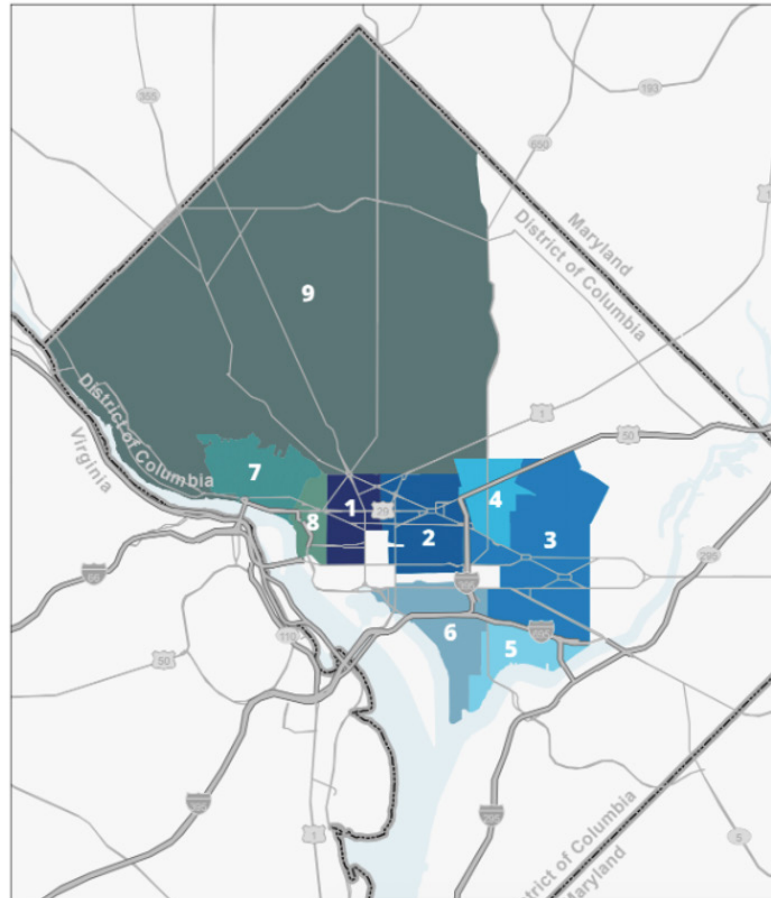
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District of Columbia Office Submarkets

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