

DISTRICT OF COLUMBIA OFFICE MARKET

Q2 2024



TRENDLINES

	Q2 2024	Q2 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.0	4.7	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(285.0)	(572.0)	↑	(184.7)	↔
DIRECT VACANCY RATE	15.2%	14.1%	↑	12.5%	↔
DIRECT VACANT SF (MSF)	22.0	20.5	↑	18.1	↔
UNDER CONSTRUCTION (MSF)	0.5	1.1	↓	2.5	↓
ASKING RENT, FULL SERVICE (PSF)	\$53.15	\$53.40	↓	\$53.79	↔
SALES VOLUME (MILLIONS)	\$22.6	\$10.4	↑	\$289.9	↔

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

OFFICE CONDITIONS SOFTEN AT MID-YEAR

Office market conditions in the District of Columbia declined during the second quarter of 2024, with negative 285,000 SF in net absorption, bringing the year-over-year net absorption to negative 1.6 million SF. This was due primarily to mid-sized second-generation Class A move-outs and continued rightsizing. The direct vacancy rate climbed 40 basis points to 15.2% in June 2024. Asking rents decreased 10 basis points during the past three months, averaging \$53.15 PSF at mid-year 2024.

Elevated inflation and interest rates will fuel economic uncertainty for most of 2024. This will cause select tenants to limit inking new deals and most lease transactions will right size. Businesses are watching the Fed, as a rate cut could come if inflation lowers to their target rate of 2.0% later this year. The pipeline is at historic lows and will help even out supply/demand. We expect generous concessions levels to moderate as landlords who have the resources to perform shrink. This should spark tenants in the market to act sooner rather than later.

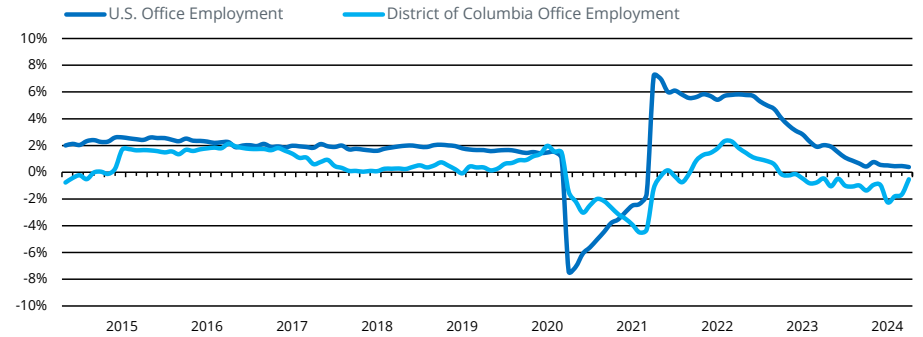


ECONOMY

Office-Using Job Growth Decelerates

- 2,400 new jobs were added to the District of Columbia economy during the 12-months ending April 2024, which is below the pre-pandemic 5-year average of 9,800. Most of this activity is due to government services, with a mix of federal and local government hiring.
- 800 office-using jobs were added during the 12-months ending April 2024, which is below the pre-pandemic 5-year average of 4,800. Most of this gain was due to hiring within the federal government, which added 1,700 jobs during this period. The professional/business services sector, one of the largest users of office space, experienced a decline of 1,500 jobs.
- The unemployment rate for the District of Columbia is currently at 4.6% as of April 2024 and averaged 5.0% for the past three months. The rate is up from 4.1% one year ago and is down notably from 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.

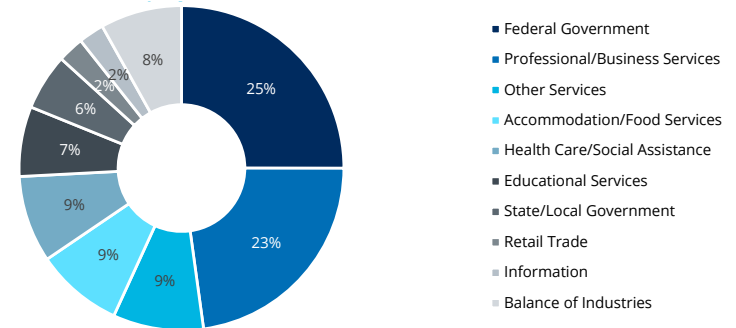
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

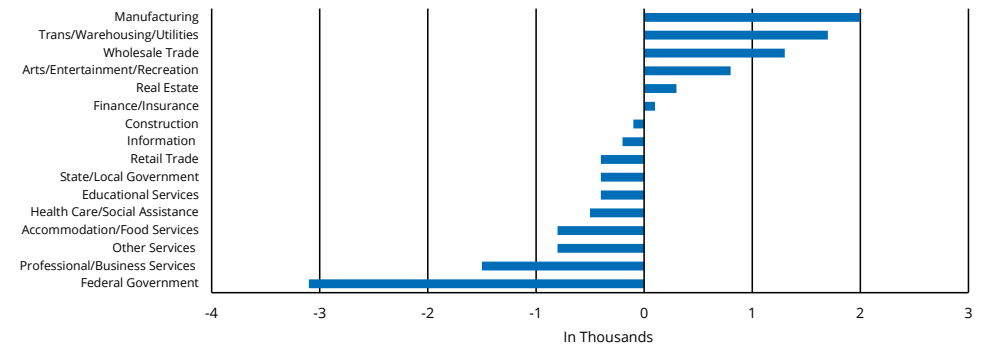
District of Columbia | April 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

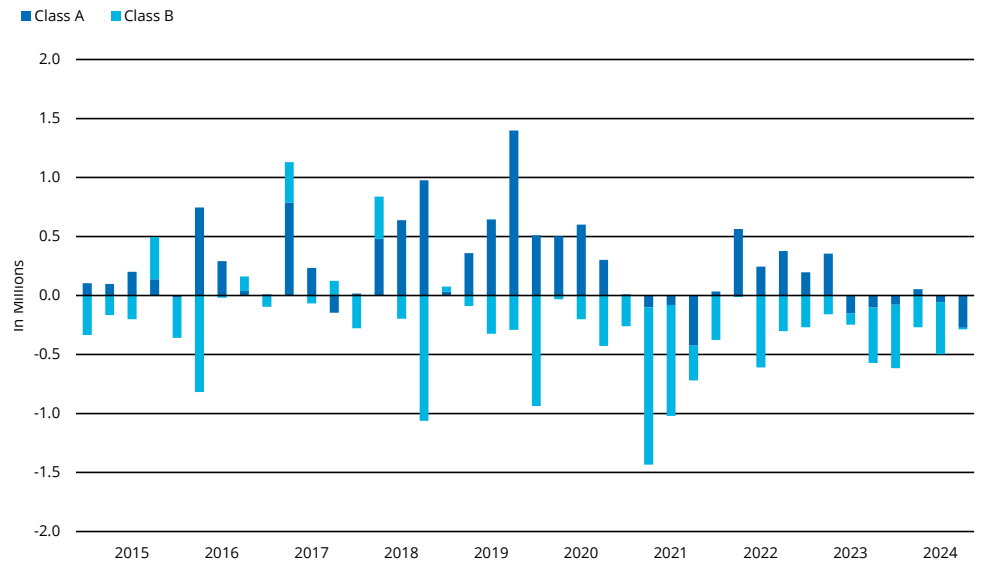


NET ABSORPTION

East End and Capitol Hill Struggle in Q2 2024

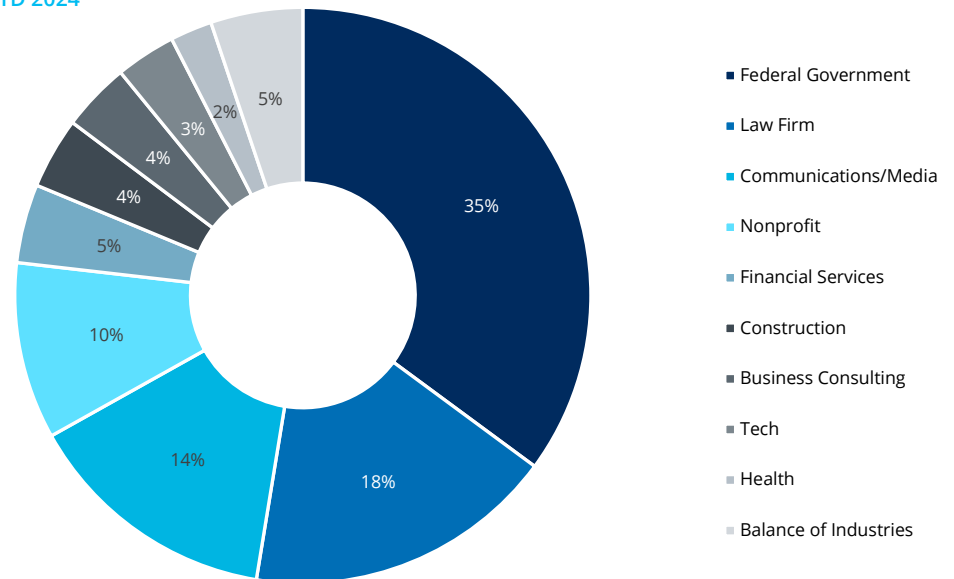
- Net absorption totaled negative 285,000 SF during the second quarter of 2024, after finishing with negative 496,000 SF during the first quarter of 2024. Year-over-year totaled negative 1.6 million SF, which is a 300,000 SF positive change of net absorption from the previous quarter.
- Class A net absorption totaled negative 273,000 SF over the past three months, driven by mid-sized moveouts outweighing lease signings. Class B/C made up the balance with negative 13,000 SF.
- The most notable impact to net absorption this quarter was the pre-leased delivery at 1700 M Street, NW in the CBD, where Gibson Dunn has taken 163,750 SF. The law firm will be vacating 1050 Connecticut Avenue, NW. Also notable was Commodity Futures Trading Commission backfilling 147,000 SF at 355 E Street, SW.
- Offsetting leasing activity this quarter were multiple large to mid-sized move outs. Merrill vacated 86,325 SF at 1152 15th Street, NW in the East End. Another notable move-out was WeWork giving back 69,737 SF at 1333 New Hampshire Avenue, NW located in the CBD. International Food Policy Research Institute renewed but downsized by just over 30,000 SF at 1201 Eye Street, NW in the East End.
- Office demand will face challenges through 2024, as select tenants pause lease decisions or right size space. Tenants will analyze their options carefully, especially as select landlords are under pressure financially.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2024



Source: CoStar, Transwestern

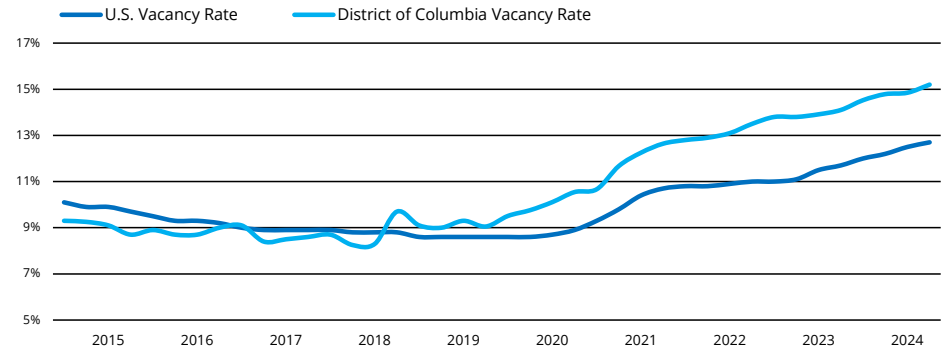


VACANCY

Vacancy Rate Rises 40 Basis Points in Q2 2024

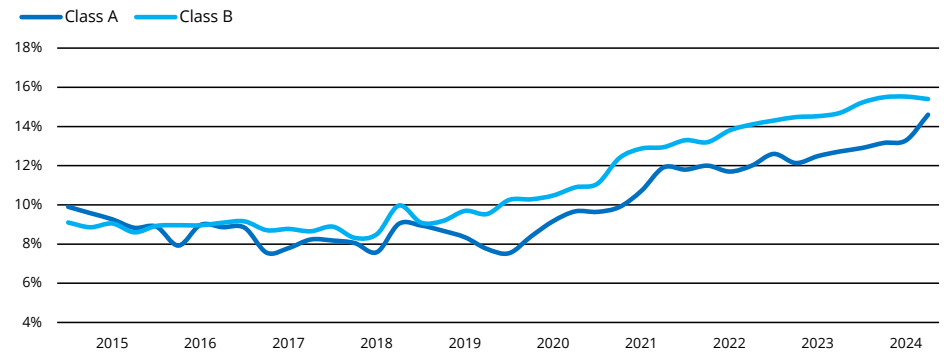
- The direct vacancy rate increased to 15.2% at mid-year 2024, from 14.8% the quarter prior. This compares to 14.1% one year ago.
- The Class A direct vacancy rate increased 130 basis points to 14.6% over the past three months and is elevated compared to 12.7% one year ago. The rise in Class A vacancy this quarter was due mostly to a handful of mid-sized moveouts in the East End.
- The Class B/C vacancy rate edged down 10 basis points to 15.4% at June 2024 but is up from 14.7% one year ago. The decline in the vacancy rate is due to a demolition this quarter, which removed obsolete office product from our inventory.
- 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

DIRECT VACANCY RATE



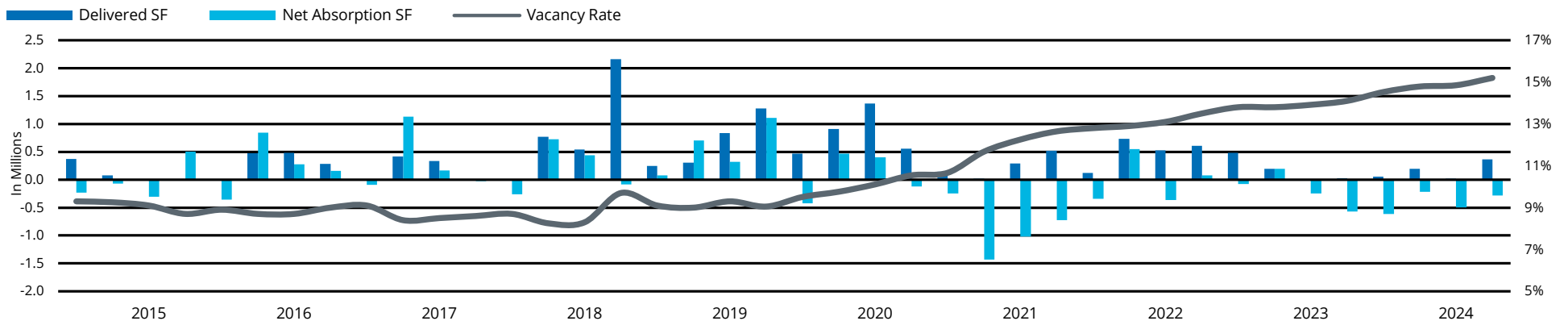
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

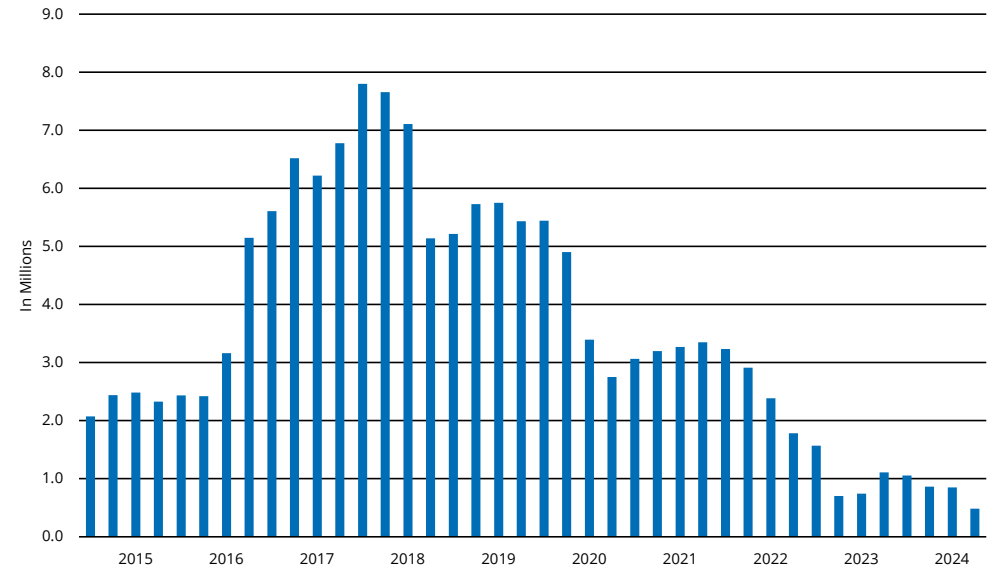


UNDER CONSTRUCTION

Construction Activity Limited in Q2 2024

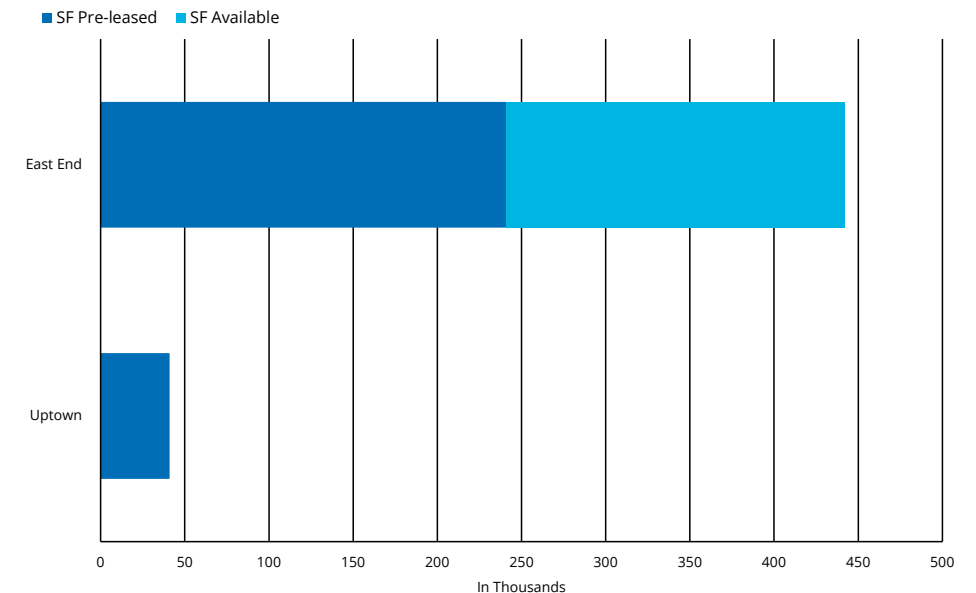
- There is 482,617 SF under construction in the District of Columbia, with most of the construction concentrated in the East End. Projects in the pipeline are currently 58% pre-leased. This is down from 848,868 SF one year ago, and down significantly from the 7.8 million SF peak during 2017.
- Two projects came online this quarter. Skanska delivered 334,000 SF at 1700 M Street, NW in the CBD submarket. This project was 60% pre-leased at delivery with Gibson Dunn as the primary tenant. The other project that delivered was 101 Q Street, NE in NoMa, totaling 32,251 SF with 56% pre-leased.
- The largest project in the pipeline is 399,617 SF at 600 5th Street, NW in the East End. This project is currently 54% pre-leased with Crowell & Moring as the primary tenant. The project is expected to deliver by January 2026.
- We expect limited ground breakings in the near term, as developers analyze the current economic climate. Construction pricing and interest rates are elevated, which will pause select projects. If feasible, owners should look for conversion opportunities to an alternative property type.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

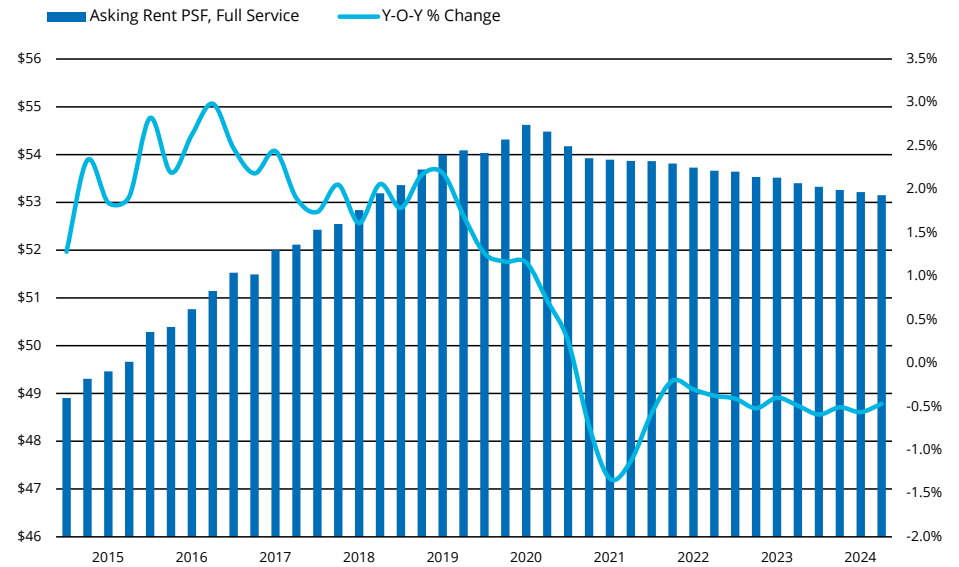


RENTAL RATES

Asking Rents Decline in Q2 2024

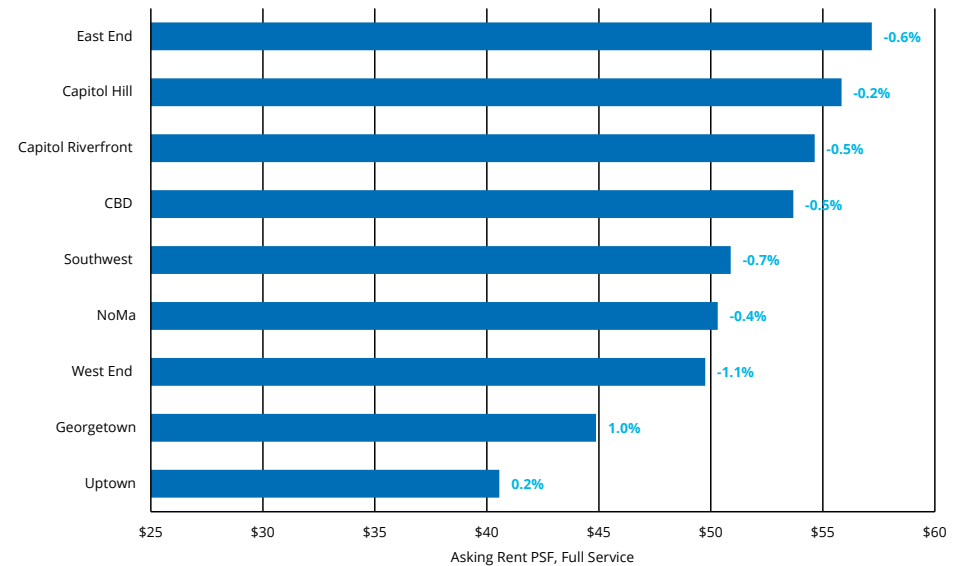
- Asking rents declined by 10 basis points during the quarter, landing at \$53.15 PSF in June 2024. Year-over-year rents are down 50 basis points.
- Class A asking rents decreased 10 basis points to \$56.85 PSF, while Class B/C decreased 10 basis points to \$44.59 PSF.
- Rent growth is the strongest in the Georgetown submarket year-over-year, rising 1.0%. Offsetting this gain was the West End, which reduced by 1.1%.
- Concession packages are elevated in the District of Columbia, which will put downward pressure on effective rates. Tenant improvement allowances averaged \$120 PSF, and free rent averaged 20.6 months for a typical 10-year or longer term on a new lease during the first half 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. However, most landlords will hold asking rents.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

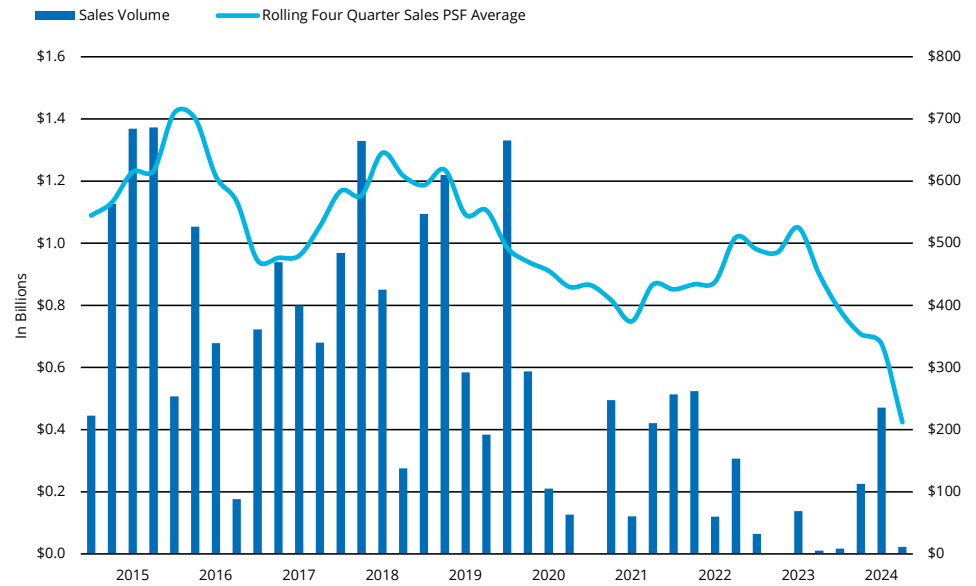


SALES

Market Trades Down in Q2 2024

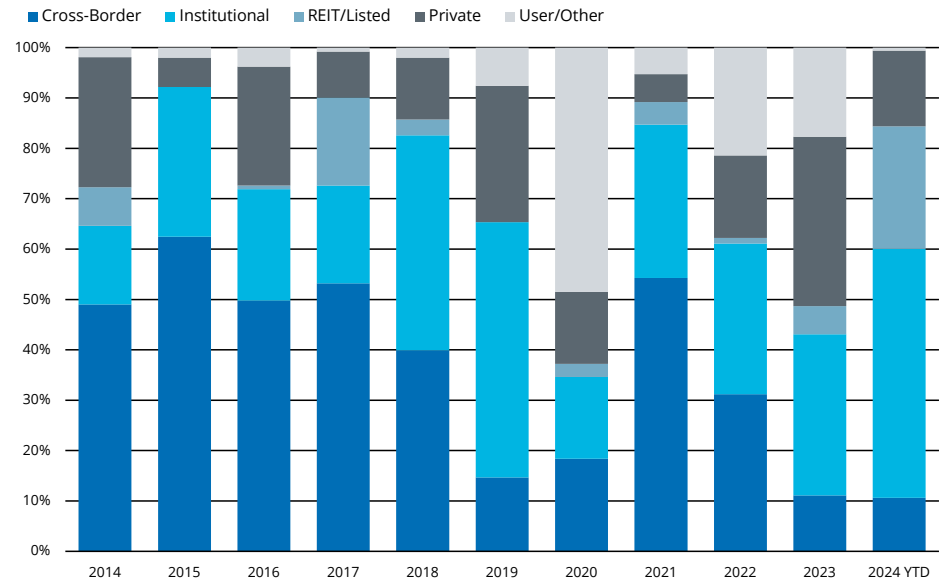
- There were two transactions in the second quarter of 2024 totaling \$22.57 million or \$86 PSF.
- The most notable deal that occurred over the quarter was the partnership of MRP Realty and Global Fund Investments purchasing 616 H Street, NW in the East End for a total of \$18.3 million or \$80 PSF from Oxford Property Group. The was considered a distress sale with high vacancy.
- The other deal that occurred was the auction sale of 2029 K Street, NW, in the CBD. Bluepoint Group bought the building from TF Cornerstone for \$4.2 million or \$120 PSF.
- Elevated interest rates, coupled with a soft office market, will limit investment volume in the near-term. 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
FHFA	400 7th St SW	Southwest	Renewal	377,092
DISTRICT OFFICE CHIEF FINANCIAL AFFAIRS OFFICE	1101 4th St SW	Southwest	Renewal	263,097
WASHINGTON DESIGN CENTER	1099 14th St, NW	East End	Renewal	115,475
INTERNATIONAL FOOD POLICY RESEARCH INSTITUTE	1201 I St NW	East End	Renewal & Downsizing	71,543
COZEN O'CONNOR	2001 M St NW	CBD	Sublease	65,576
BLOOMBERG	1101 New York Ave NW	East End	Renewal	50,000

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
616 H ST NW	East End	Jun-24	\$18,370,000	228,534	\$80	MRP Realty	Oxford Properties Group
2029 K ST NW	CBD	May-24	\$4,202,000	34,985	\$120	Bluepoint Group	TF Cornerstone, Inc.
1899 L ST NW	CBD	Mar-24	\$26,650,000	150,502	\$177	Taicoon Property Partners	Blackrock, Inc.
1101 VERMONT AVE NW	East End	Mar-24	\$15,822,125	175,663	\$90	Zumot Real Estate Management	UBS Asset Management
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

Source: CoStar, Real Capital Analytics, Transwestern.



MARKET INDICATORS

All Classes of Space | Q2 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	43,129,309	7,008,513	16.3%	17.3%	0	83,000	(218,000)	\$53.68
EAST END	48,465,746	7,817,525	16.1%	17.3%	441,617	(208,000)	(996,000)	\$57.19
CAPITOL HILL	6,397,058	1,324,191	20.7%	21.4%	0	(114,000)	(90,000)	\$55.83
NOMA	11,709,053	708,398	6.1%	6.2%	0	(27,000)	(223,000)	\$50.31
CAPITOL RIVERFRONT	5,762,589	587,784	10.2%	12.1%	0	6,000	12,000	\$54.63
SOUTHWEST	13,153,644	1,611,321	12.3%	12.5%	0	(13,000)	20,000	\$50.89
GEORGETOWN	2,936,331	951,371	32.4%	32.4%	0	(3,000)	(141,000)	\$44.88
WEST END	3,892,187	552,691	14.2%	19.1%	0	16,000	(12,000)	\$49.75
UPTOWN	9,545,269	1,431,790	15.0%	16.1%	41,000	(25,000)	31,000	\$40.56
TOTAL	144,991,186	21,993,584	15.2%	16.2%	482,617	(285,000)	(1,617,000)	\$53.15

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.

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Four dynamic, integrated companies make up the Transwestern enterprise, giving us the perspective to think broadly, deeply and creatively about commercial real estate. Clients and investors rely on us for expertise that spans institutional and opportunistic investment, development, hospitality, and brokerage and asset services. Our award-winning, collaborative culture empowers team members with resources and independence to work across boundaries in pursuit of innovative solutions, reinforcing a reputation for service excellence that translates to measurable results. Through offices nationwide and alliance partners around the globe, we positively impact the built environment and our communities while fostering a work climate that champions career vitality for all.

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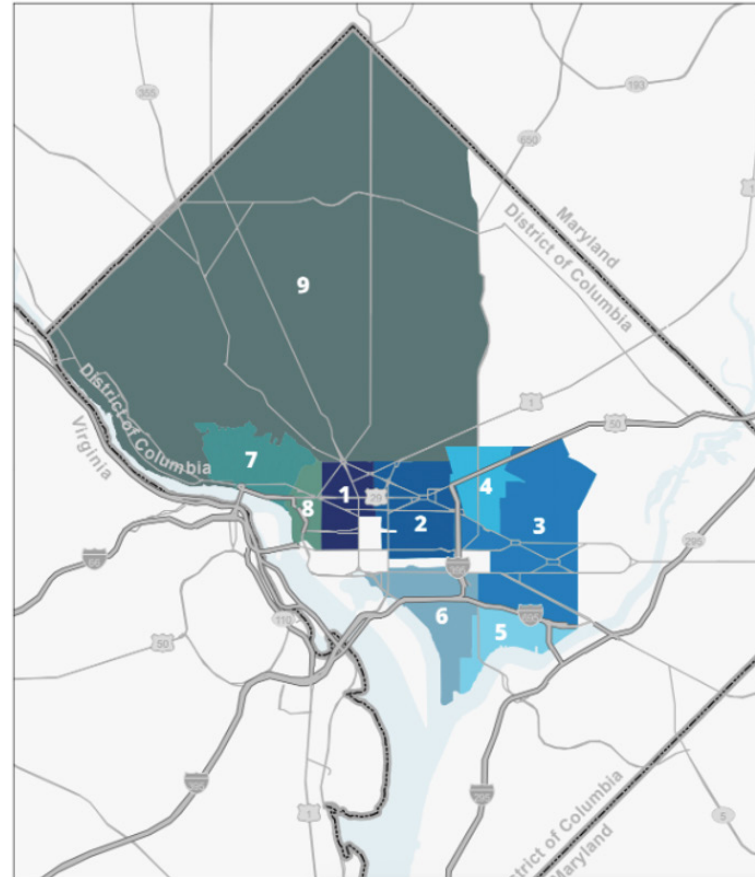
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District of Columbia Office Submarkets

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