TRANSWESTERN

DISTRICT OF COLUMBIA OFFICE MARKET

Q3 2024

TRENDLINES

	Q3 2024	Q3 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	6.2	5.3	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	(174.0)	(617.0)	↑	(269.9)	↔
DIRECT VACANCY RATE	15.3%	14.5%	↑	12.8%	↔
DIRECT VACANT SF (MSF)	22.2	21.1	↑	18.5	↔
UNDER CONSTRUCTION (MSF)	0.7	1.1	↓	2.3	↓
ASKING RENT, FULL SERVICE (PSF)	$53.17	$53.32	↓	$53.74	↔
SALES VOLUME (MILLIONS)	$140.2	$17.0	↑	$278.3	↔

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

OFFICE CONDITIONS CONTINUE NEGATIVE TREND THROUGH Q3

Office market conditions in the District of Columbia declined during the third quarter of 2024, with negative 174,000 SF in net absorption, bringing the year-over-year net absorption to negative 1.2 million SF. This was due primarily to tenants vacating space, with many reducing at renewal. The direct vacancy rate climbed 10 basis points to 15.3% in September 2024. Asking rents remained relatively flat during the quarter, averaging $53.17 PSF at the end of the third quarter of 2024.

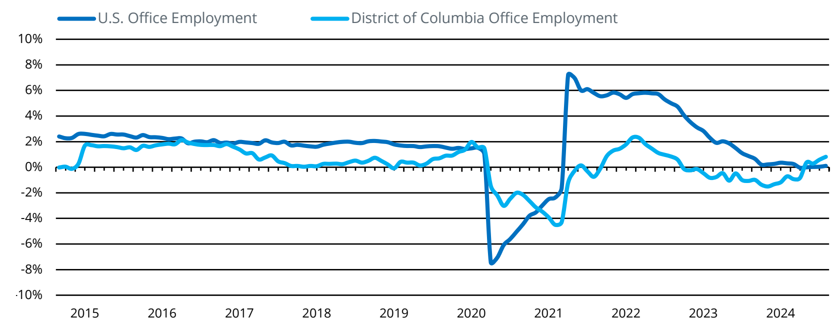
The employment market remains steady, despite ongoing economic headwinds. The Fed cut rates by 50 basis points at the most recent meeting with intention to keep the economy humming. The pipeline is at historic lows and will help even out supply/demand in time. We expect generous concessions levels to moderate as landlords who have the resources to perform shrink. This should spark tenants in the market to act sooner rather than later. However, rightsizing of space as leases roll will act as a drag to the market over the next several quarters.

ECONOMY

Office-Using Job Growth Decelerates

- 5,500 jobs were added to the District of Columbia economy during the 12-months ending August 2024, which is below the pre-pandemic 5-year average of 9,800 jobs-added.
- 4,000 office-using jobs were added during the 12-months ending August 2024, which is below the pre-pandemic 5-year average of 4,800. Most of this gain was due to hiring within the professional/business services sector and the federal government, which added 2,200 jobs combined during this period.
- The unemployment rate for the District of Columbia is currently at 6.3% as of July 2024 and averaged 6.2% for the past three months. The rate is up from 5.2% 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.

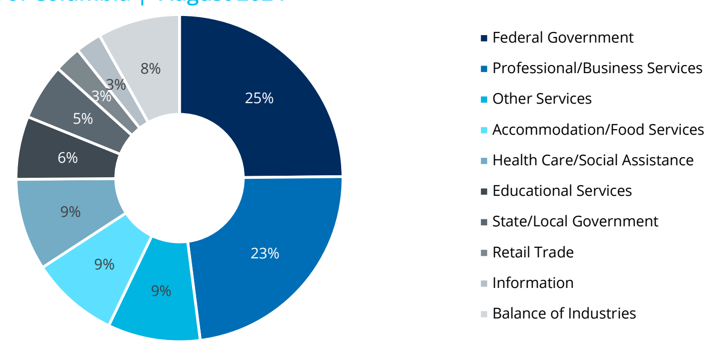
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

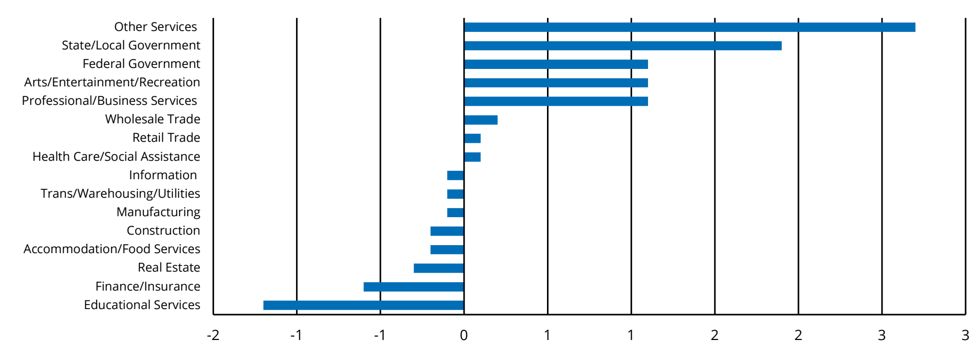
Disctrict of Columbia | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Disctrict of Columbia



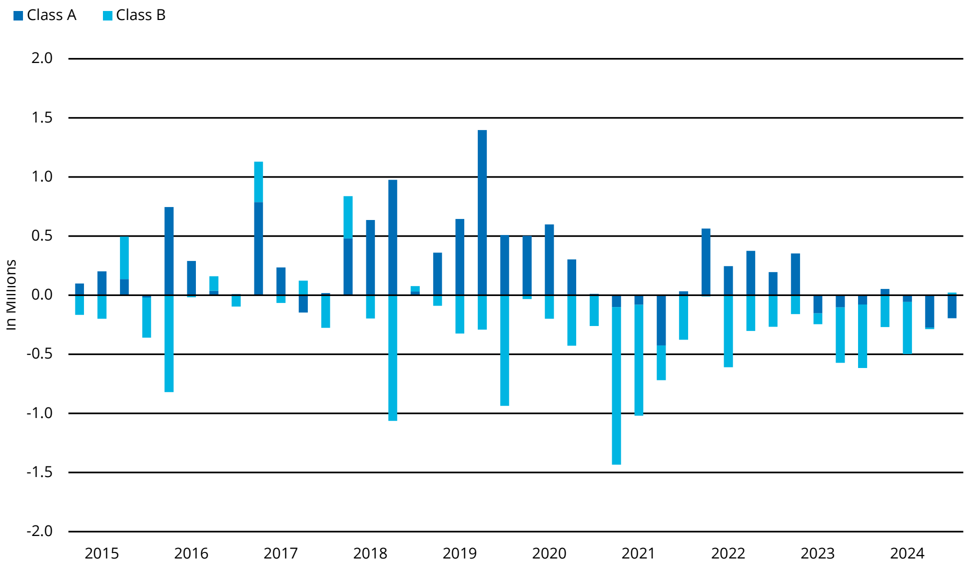
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

NoMa and CBD Struggle in Q3 2024

- Net absorption totaled negative 174,000 SF during the third quarter of 2024, after negative 285,000 SF during the second quarter of 2024. Year-over-year totaled negative 1.2 million SF.
- The most notable deal was the U.S. Department of Treasury consolidating and taking 65,000 SF at 1575 Eye Street, NW in the East End. The agency is downsizing from a total of 196,000 SF, a reduction of 67%. The downsizing is intended to improve the agency's telework capacity.
- There were several notable move-outs that dragged net absorption. National Public Radio (NPR) reduced their footprint by 107,000 SF at 1111 N Capitol Street, NE, putting floors five through seven back on the market. Also, the U.S. Department of Veteran Affairs vacated 61,000 SF at 1100 1st Street, NE in NoMa and Spiegel & McDiarmid moved out of 25,000 SF at 1875 I Street, NW, in the CBD.
- Office demand will face challenges during the balance of 2024, as select tenants right size space. When looking for space, tenants will analyze their options carefully, especially as select landlords are under financial pressure.

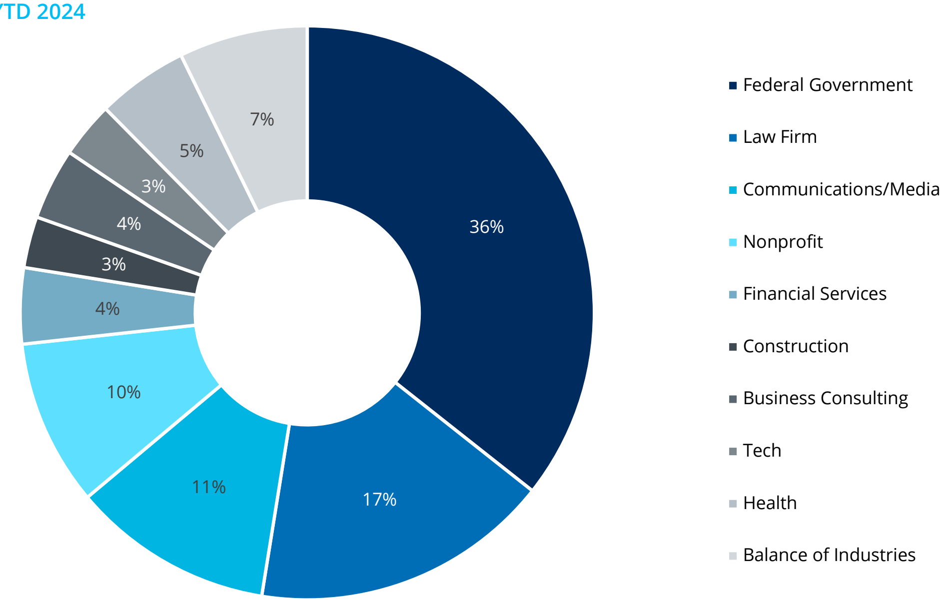
NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2024



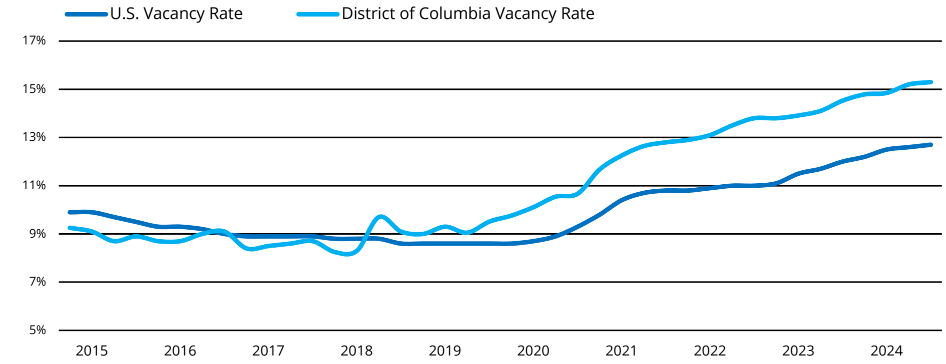
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Stagnant through Q3

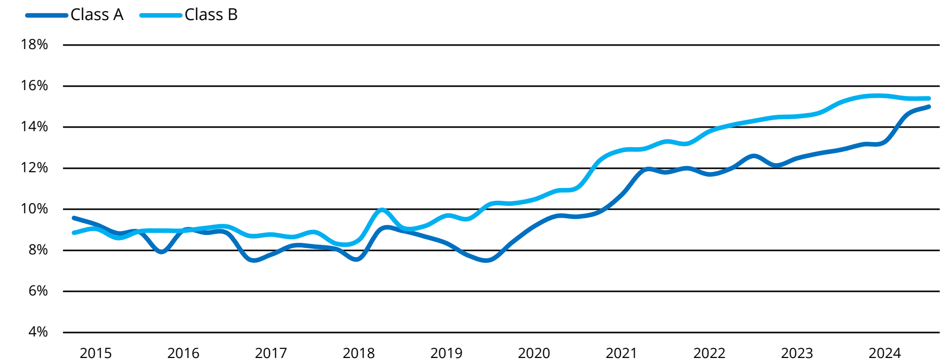
- The direct vacancy rate increased to 15.3% at September 2024, from 15.2% the quarter prior. This compares to 14.5% one year ago. NoMa holds the lowest vacancy rate, at 7.3%, of all the submarkets in the District, despite a notable rise this quarter due to NPR and the U.S. Department of Veteran Affairs reducing space.
- The Class A direct vacancy rate increased 40 basis points to 15.0% over the past three months and is elevated compared to 12.9% one year ago. The Class B/C vacancy rate stayed consistent at 15.4% through September 2024 and is up from 15.2% one year ago.
- The vacancy rate will be under pressure during the balance of 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



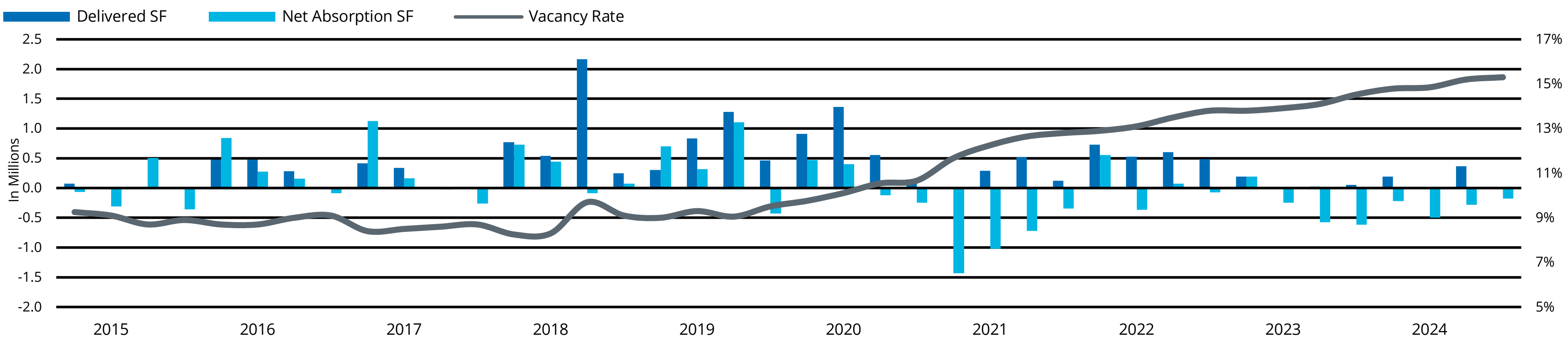
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



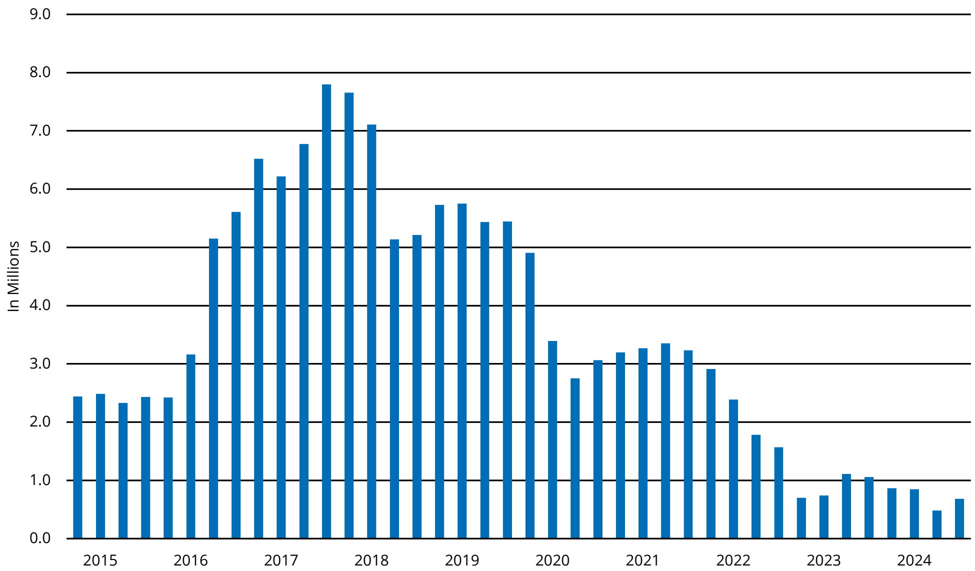
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Activity at Record Low

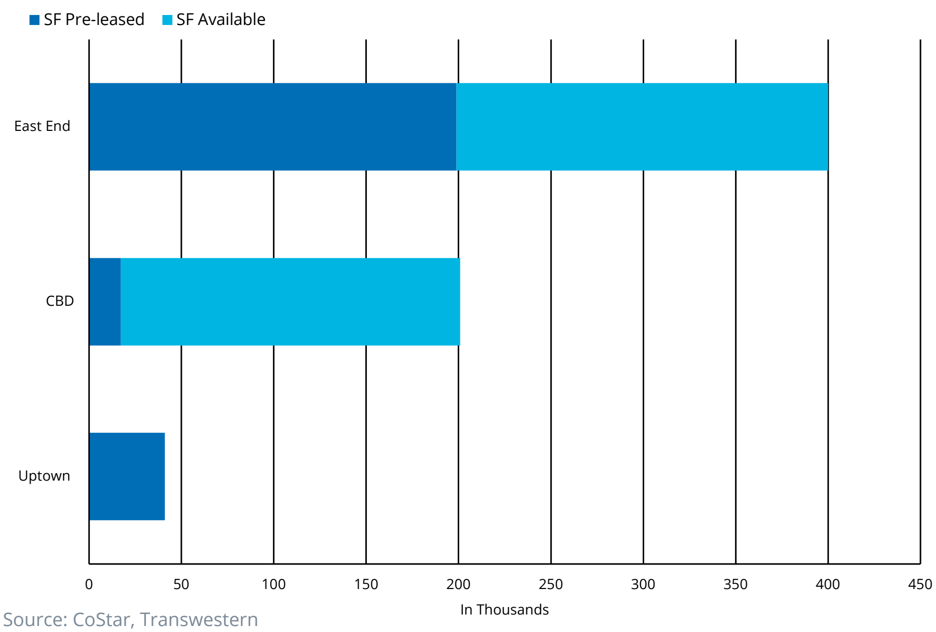
- There is 684,000 SF under construction in the District of Columbia, with most of the construction concentrated in the East End and CBD. Projects in the pipeline are currently 68% pre-leased. This is down from 1 million SF one year ago, and down significantly from the 7.8 million SF peak during 2017.
- One project delivered during the third quarter of 2024. Rockrose delivered 60,000 SF of renovated space at 801 18th Street, NW in the CBD.
- The largest project in the pipeline is 400,000 SF at 600 5th Street, NW in the East End. This project is currently 54% pre-leased with Crowell & Moring as the primary tenant, leasing out 199,000 SF. The project is expected to deliver in January 2026.
- We expect limited ground breakings in the near term, as the office market is under pressure. Select projects could start with a sizable tenant in place, but these should be limited. If feasible, owners should look for conversion opportunities to an alternative property type.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



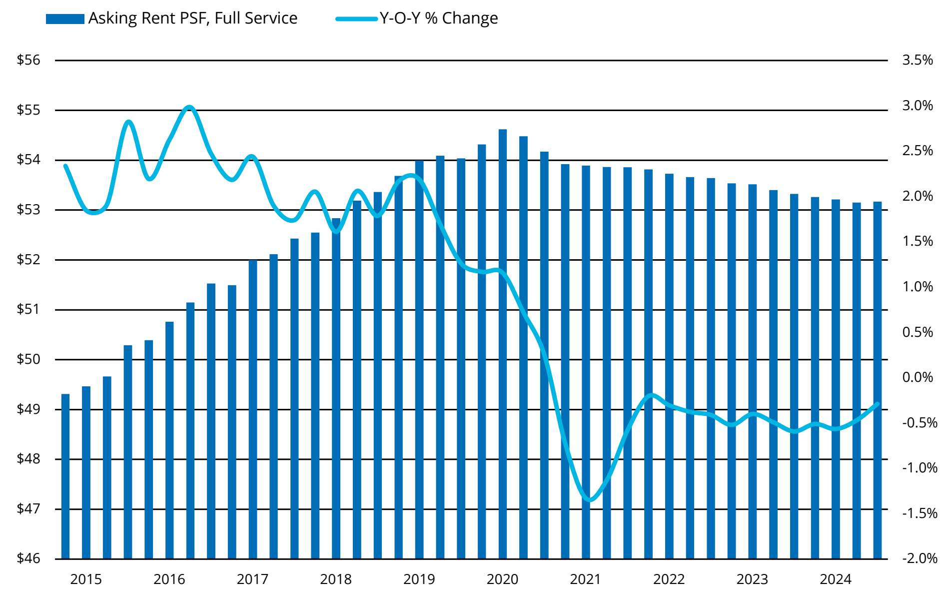
Source: CoStar, Transwestern

RENTAL RATES

Asking Rents Show Little Change in Q3 2024

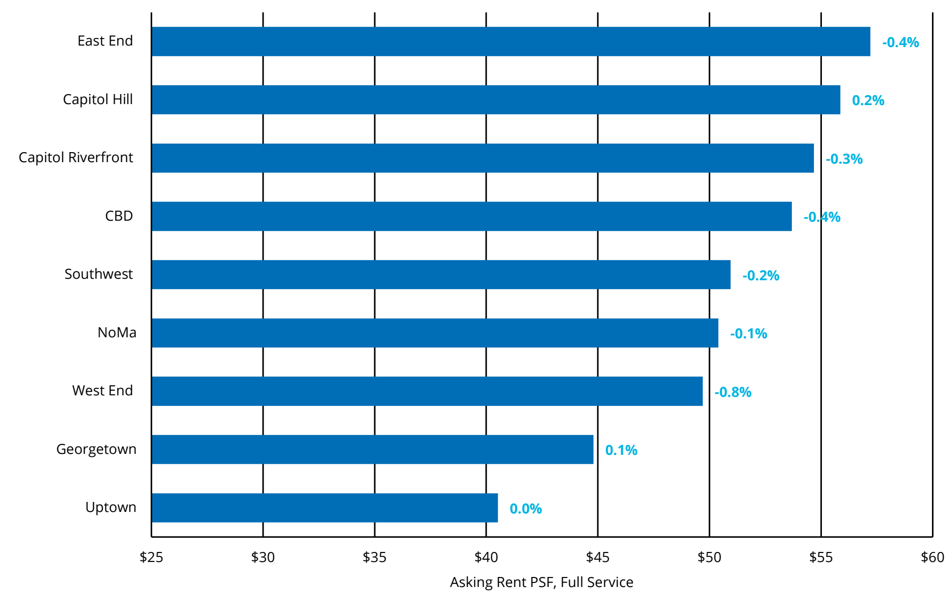
- Asking rents were relatively unchanged during the quarter, at $53.17 PSF in September 2024. However, year-over-year rents are down 30 basis points.
- Rent growth is the strongest in the Capitol Hill submarket year-over-year, rising 0.2%. Offsetting this gain was the West End, which reduced by 0.8%.
- Concession packages are elevated in the District of Columbia, which will put downward pressure on effective rates. Tenant improvement allowances averaged $118 PSF, and free rent averaged 20.1 months for a typical 10-year or longer term on a new lease during the first nine months of 2024. This compares to $125 PSF and 22.9 months during 2023.
- We anticipate limited asking rent growth during the balance of 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



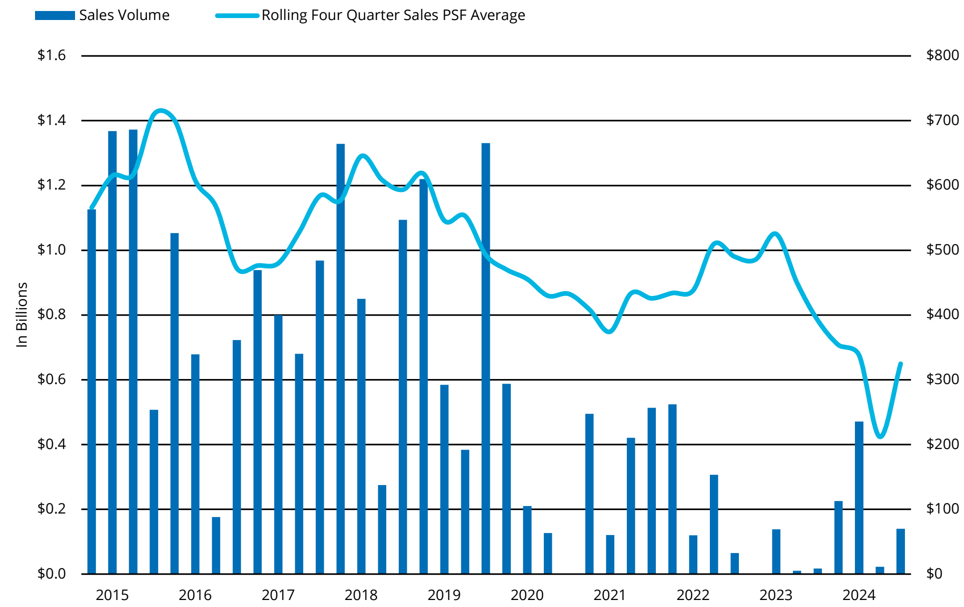
Source: CoStar, Transwestern

SALES

Market Trades Down in Q3 2024

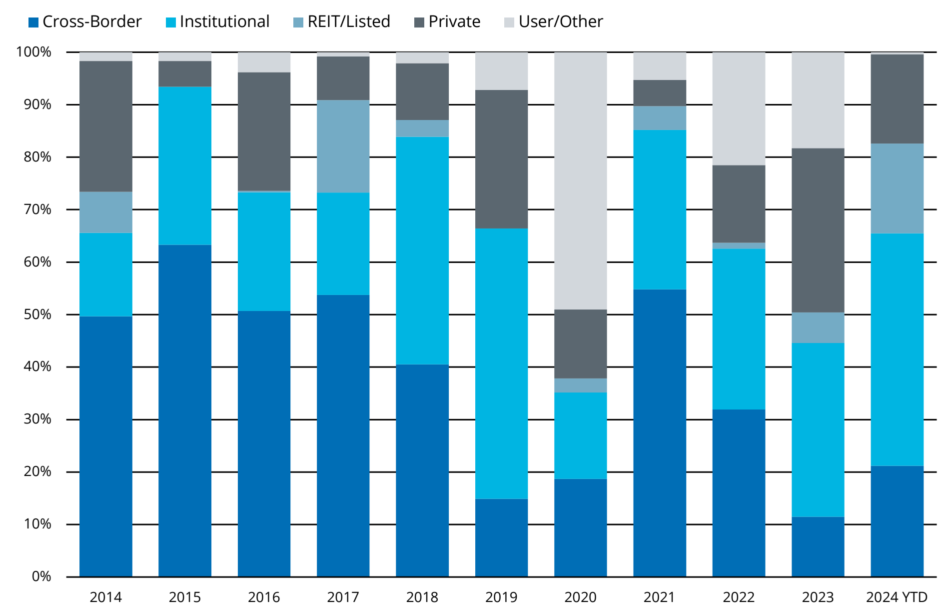
- There was one transaction in the third quarter of 2024 totaling $140.2 million or $601 PSF. Spear Street Capital purchased the 233,000 SF asset at 2000 K Street, NW from Tishman Speyer. The deal is being viewed as a standout for a downtown that is experiencing slow investment activity due to current market conditions.
- Elevated interest rates, coupled with a soft office market, will limit investment volume in the near-term. However, we expect opportunistic capital to be at play for distressed assets that can be purchased 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
FANNIE MAE	1100 15th St NW	East End	Renewal	201,689
U.S. DEPARTMENT OF TREASURY	1575 Eye St NW	East End	New Lease	65,000
AMERICAN ASSOCIATION FOR JUSTICE	777 6th St NW	East End	Blend & Extend	36,796
UNITED STATES BORDER CONTROL	1717 H St NW	CBD	Renewal	29,359
THE CHICAGO SCHOOL	1101 K St NW	East End	New Lease	28,897
BROWN RUDNICK	1900 N St NW	CBD	New Lease	27,513

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
2000 K ST NW	CBD	Jul-24	$140,200,000	233,292	$601	Spear Street Capital	Tishman Speyer
616 H ST NW	East End	Jun-24	$16,662,595	228,534	$73	MRP Realty	Oxford Properties Group
1776 K ST NW	CBD	Jun-24	$27,945,000	198,109	$141	OTO Development	Potomac Investment Properties

Source: CoStar, Real Capital Analytics, Transwestern.

MARKET INDICATORS

All Classes of Space | Q3 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	7,129,275	16.5%	17.2%	201,384	(121,000)	(236,000)	$53.69
EAST END	48,465,746	7,793,292	16.1%	17.4%	442,000	24,000	(577,000)	$57.21
CAPITOL HILL	6,397,058	1,292,266	20.2%	20.3%	0	32,000	(59,000)	$55.86
NOMA	11,709,053	854,761	7.3%	7.4%	0	(146,000)	(191,000)	$50.40
CAPITOL RIVERFRONT	5,762,589	572,431	9.9%	11.8%	0	15,000	(11,000)	$54.68
SOUTHWEST	13,153,644	1,606,060	12.2%	12.7%	0	5,000	(51,000)	$50.95
GEORGETOWN	2,936,331	925,525	31.5%	31.5%	0	26,000	(52,000)	$44.80
WEST END	3,892,187	564,289	14.5%	19.3%	0	(12,000)	(15,000)	$49.70
UPTOWN	9,545,269	1,428,927	15.0%	16.1%	41,000	3,000	19,000	$40.58
TOTAL	**144,991,186**	**22,166,825**	**15.3%**	**16.3%**	**684,384**	**(174,000)**	**(1,173,000)**	**$53.17**

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

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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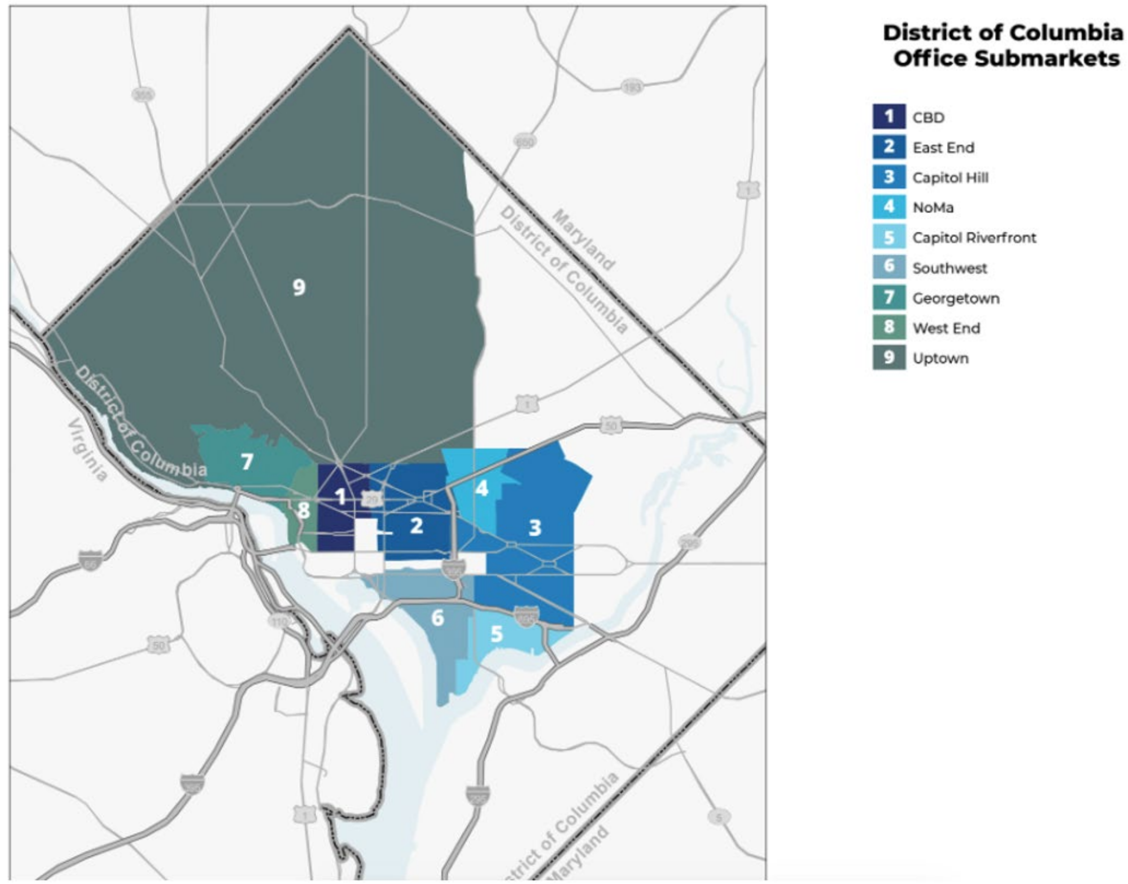

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