

DISTRICT OF COLUMBIA OFFICE MARKET

Q4 2024

TRENDLINES

	Q4 2024	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	5.3	4.9	↑	5.9	↓
NET ABSORPTION (THOUSANDS SF)	453.0	(217.0)	↑	(228.1)	↔
DIRECT VACANCY RATE	14.9%	14.8%	↑	13.1%	↔
DIRECT VACANT SF (MSF)	21.5	21.5	↔	18.9	↔
UNDER CONSTRUCTION (MSF)	0.6	0.9	↓	2.0	↓
ASKING RENT, FULL SERVICE (PSF)	\$53.18	\$53.26	↓	\$53.70	↔
SALES VOLUME (MILLIONS)	\$58.1	\$225.3	↓	\$217.7	↔

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

OFFICE CONDITIONS SHOW SIGNS OF IMPROVEMENT IN Q4

Office market conditions in the District of Columbia improved during the fourth quarter of 2024, with positive 453,000 SF in net absorption, bringing the year-over-year net absorption to negative 505,000 SF. This was due primarily to large lease signings, and minimal move-outs throughout the quarter. The direct vacancy rate declined 40-basis points to 14.9% in December 2024. Asking rents remained relatively flat during the quarter, averaging \$53.18 PSF at December 2024.

The Fed cut rates by another quarter point in December 2024 to keep the cooling economy stable. Two additional cuts are expected in 2025. Although hybrid is likely here to stay, private sector return to office mandates should move the average days in office slightly higher in 2025. The 2024 election produced an aligned government, which could encourage stricter policy to get the federal workforce back in the office over the next year. The office market remains in tenant favor for now, however, landlords with limited resources could struggle to lure tenants.

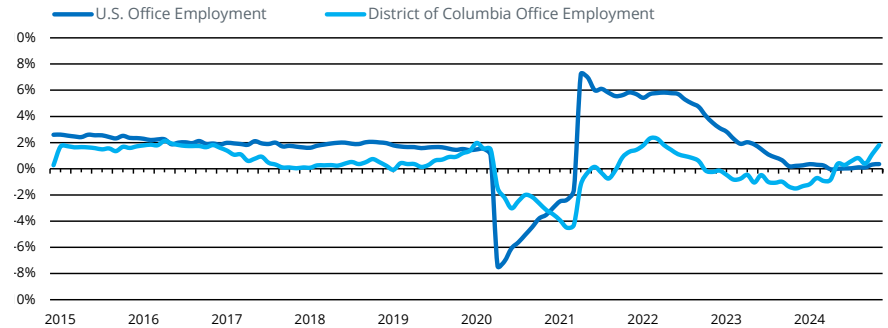


ECONOMY

Job Growth Led by Professional Services Sector

- 13,700 jobs were added to the District of Columbia economy during the 12-months ending November 2024, which is above the pre-pandemic 5-year average of 9,800 jobs-added. Most of this activity is due to increasing job growth for the professional/business services sector which added 5,300 jobs.
- 8,900 office-using jobs were added during the 12-months ending November 2024, which is well above the pre-pandemic 5-year average of 4,800. Most of this gain was due to hiring within the professional/business services sector, but also nonprofits and associations which added 4,100 new jobs. Countering this gain, was the federal government and financial services sectors cutting a total of 1,000 jobs.
- The unemployment rate for the District of Columbia is currently at 5.0% as of November 2024 and averaged 5.3% for the past three months. The rate is up from 4.6% 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 4,000 new jobs per year over the next five years. We expect most jobs to be created within the physician offices, civic/social organizations, and consulting tech sectors.

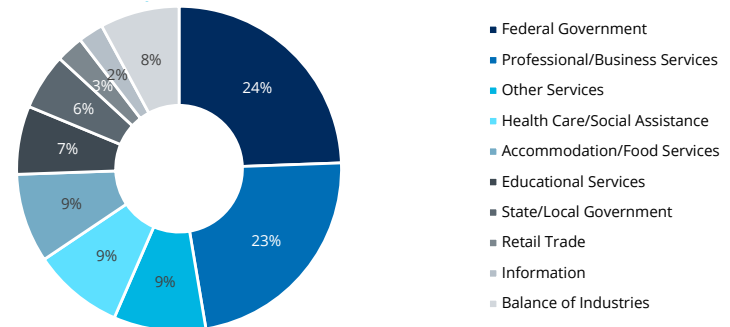
Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

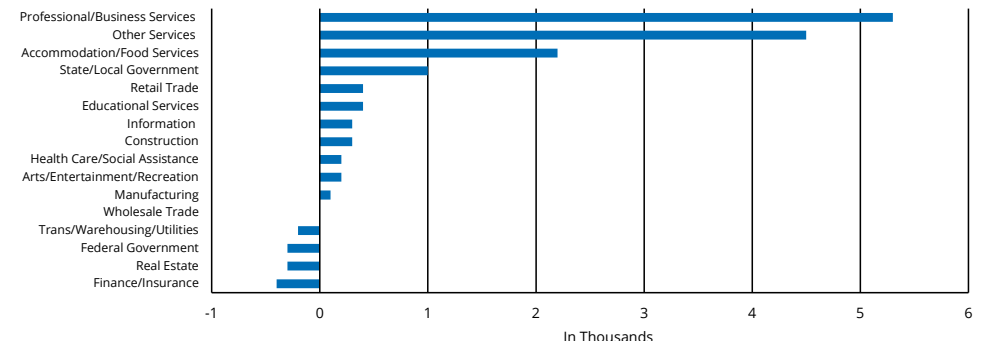
District of Columbia | November 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

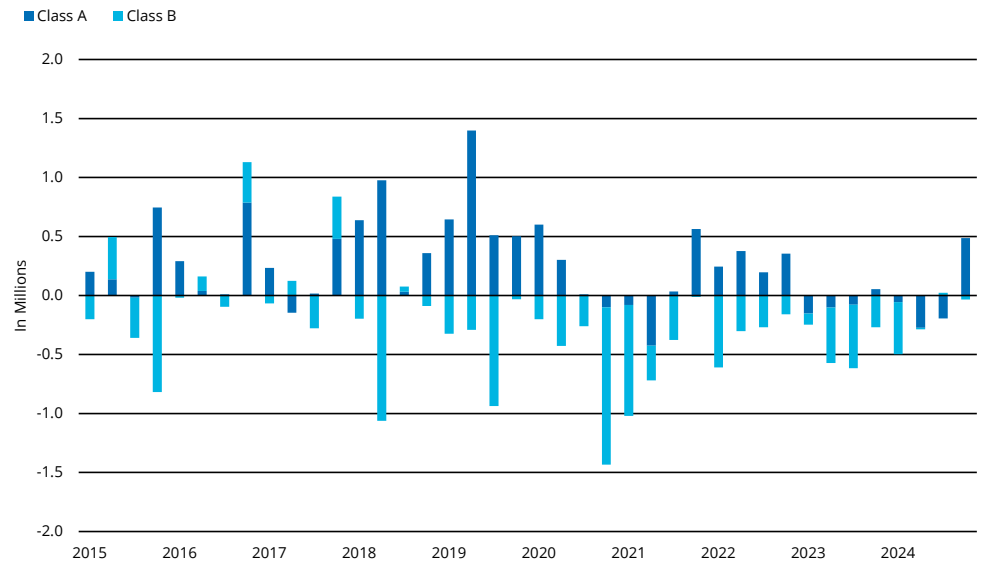


NET ABSORPTION

Leasing Activity Lifts Net Absorption in Q4

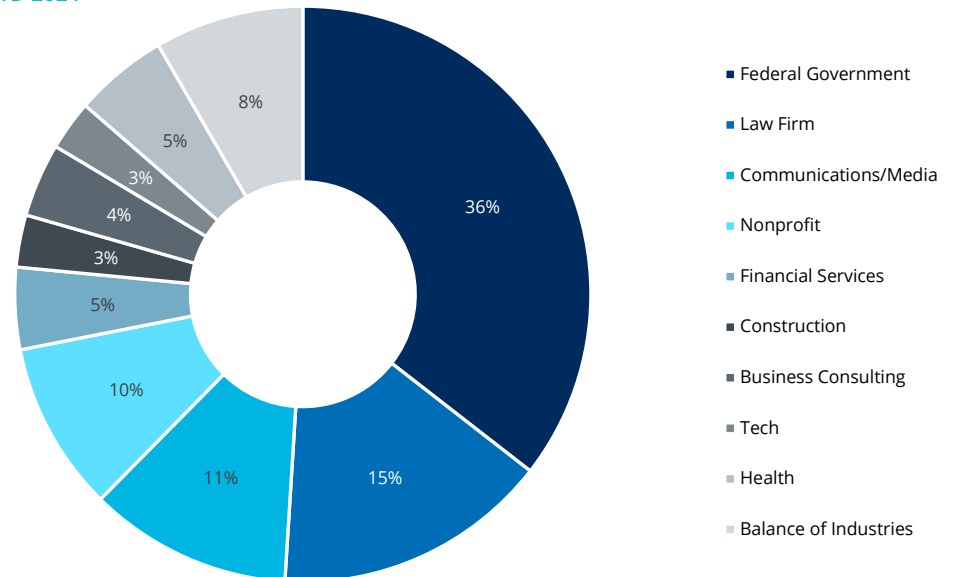
- Net absorption totaled positive 453,000 SF during the fourth quarter of 2024, after negative 174,000 SF during the third quarter of 2024. Year-over-year totaled negative 505,000 SF.
- The largest deal was the U.S. Agency for Global Media taking 315,000 SF at 1875 Pennsylvania Avenue, NW in the CBD. Set to become the agencies new headquarters, this move is expected to save taxpayers more than \$150 million over the 15-year lease period. The agency will relocate from a government building at 330 Independence Avenue, SW. Another large deal that was signed during the quarter, was Court Services & Offender Supervision Agency taking 125,000 SF of direct space at 501 3rd Street, NW. ArentFox Schiff signed a new lease for 120,000 SF at 1100 15th Street, NW (East Tower). The law firm will vacate over 200,000 SF at 1717 K Street, NW in the CBD.
- There were a few notable move-outs that impacted net absorption, including Cozen O'Connor vacating 75,000 SF at 1200 19th St NW. Additionally, Share Our Strength vacated 35,000 SF at 1030 15th Street, NW in the East End.
- Office demand will face challenges during 2025, 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

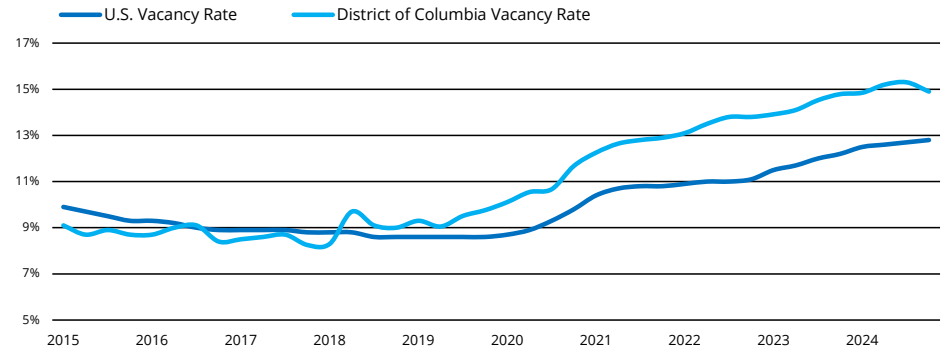


VACANCY

Class-A Drives Vacancy Decline in Q4

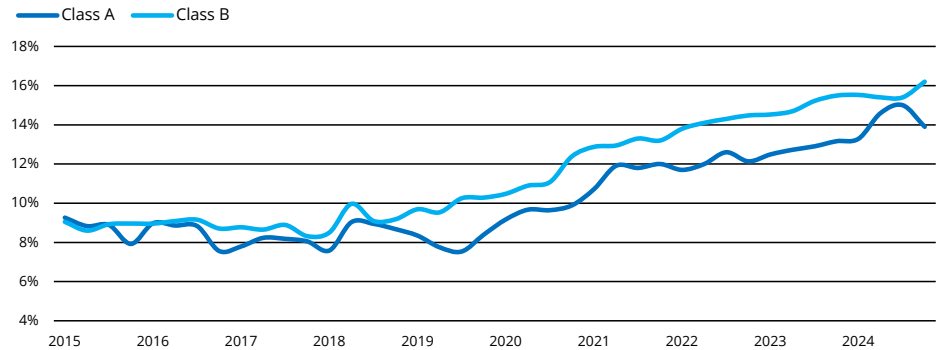
- The direct vacancy rate decreased 40-basis points to 14.9% at December 2024, from 15.3% the quarter prior. This compares to 14.8% one year ago. NoMa continues to hold the lowest vacancy rate of all the submarkets in the District, at 7.4% and inventory totaling 11.7 million SF.
- The Class A direct vacancy rate decreased 110-basis points to 13.9% over the past three months and is elevated compared to 13.2% one year ago. The Class B/C vacancy rate remained relatively flat, shifting down 10-basis points to 15.3% through December 2024, where it has stayed for the past three quarters.
- The vacancy rate will be under pressure during 2025 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



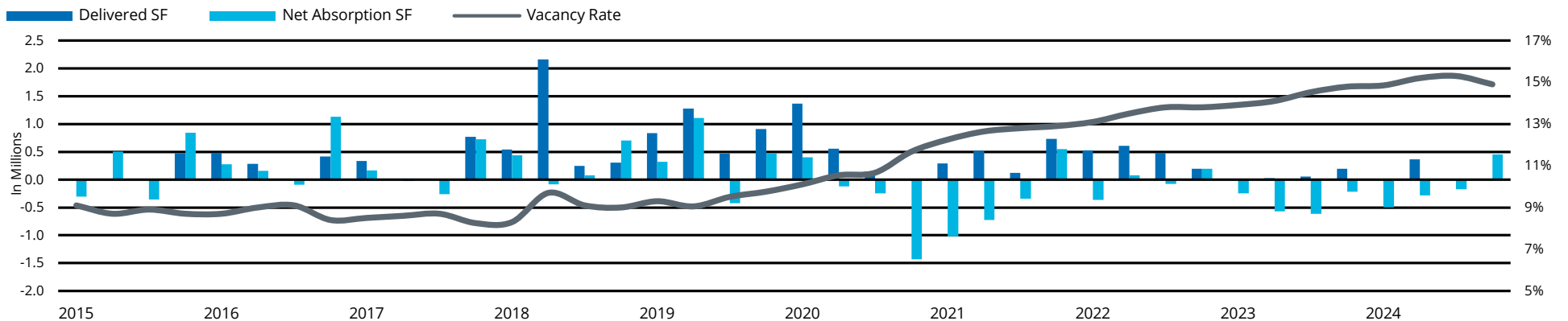
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

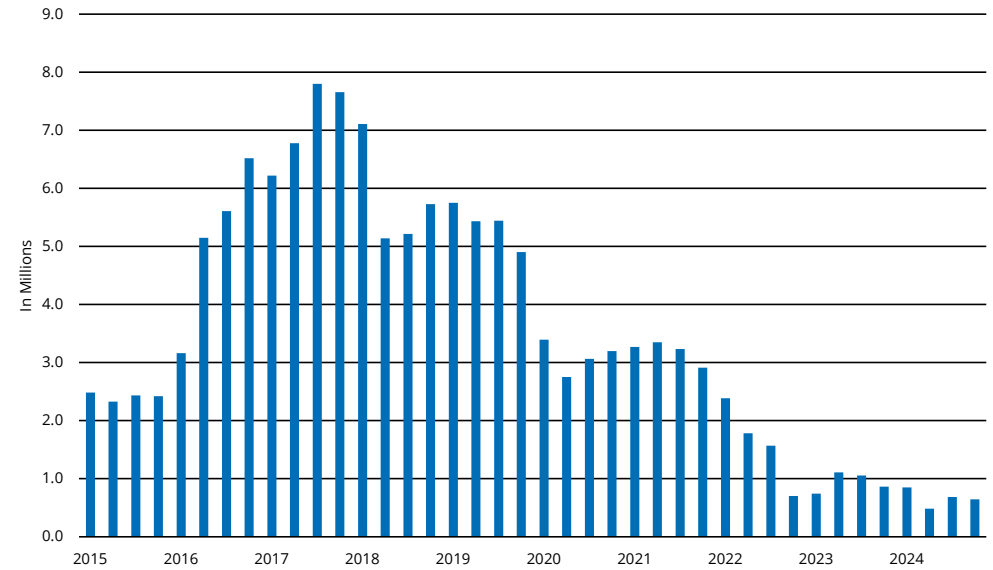


UNDER CONSTRUCTION

Construction Activity Remains Limited in Q4

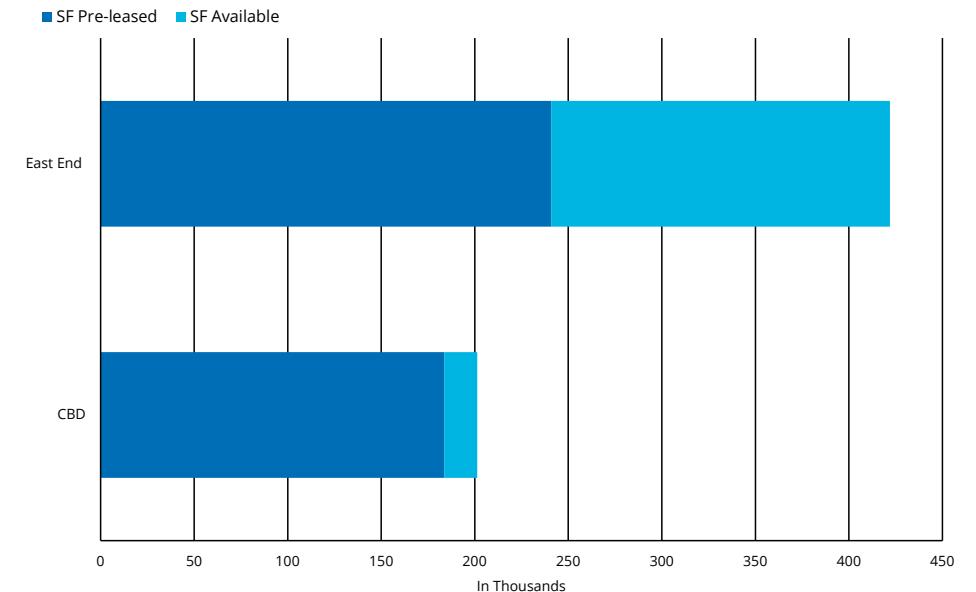
- There is 643,000 SF under construction in the District of Columbia, with all of the construction concentrated in the East End and CBD. Projects in the pipeline are currently 66% pre-leased. This is down from 865,000 SF one year ago, and down significantly from the 7.8 million SF peak during 2017.
- There were no construction projects that delivered in the District of Columbia during the fourth quarter of 2024.
- 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. The law firm will be vacating 280,000 SF at 1001 Pennsylvania Avenue, NW.
- 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

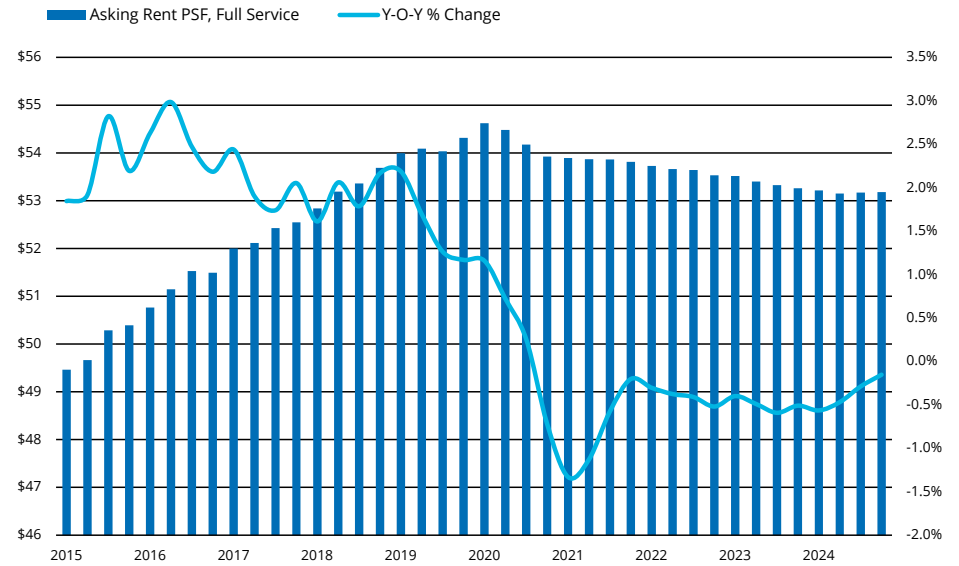


RENTAL RATES

Asking Rents Show Little Change in Q4 2024

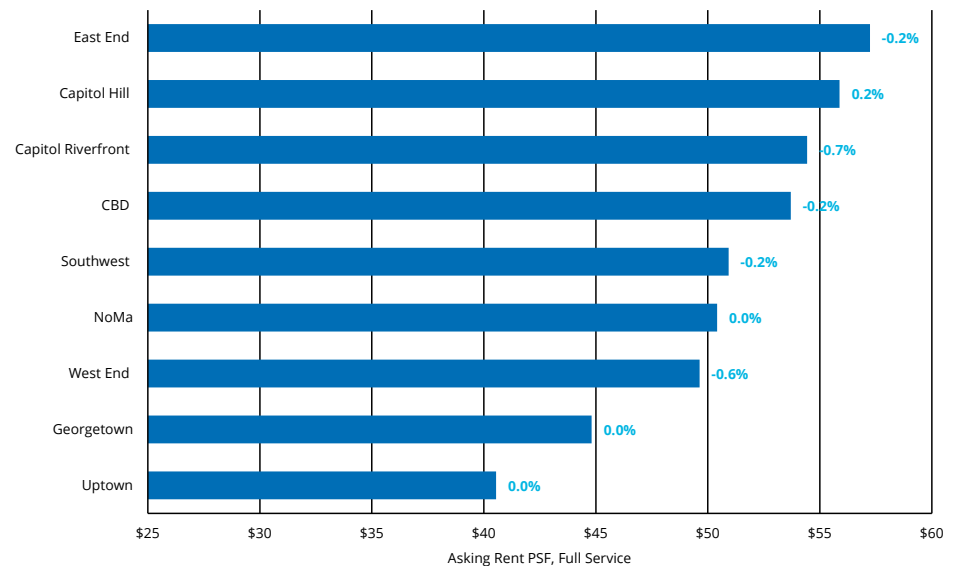
- Asking rents were relatively unchanged during the quarter, at \$53.18 PSF in December 2024. However, year-over-year rents are down 20-basis points.
- Rent growth is the strongest in the Capitol Hill submarket year-over-year, rising 20-basis points. Offsetting this gain were the West End and Capital Riverfront, which reduced by 0.6% and 0.7% respectively.
- Concession packages are elevated in the District of Columbia, which will put downward pressure on effective rates. Tenant improvement allowances averaged \$125 PSF, and free rent averaged 19.4 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 2025. 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

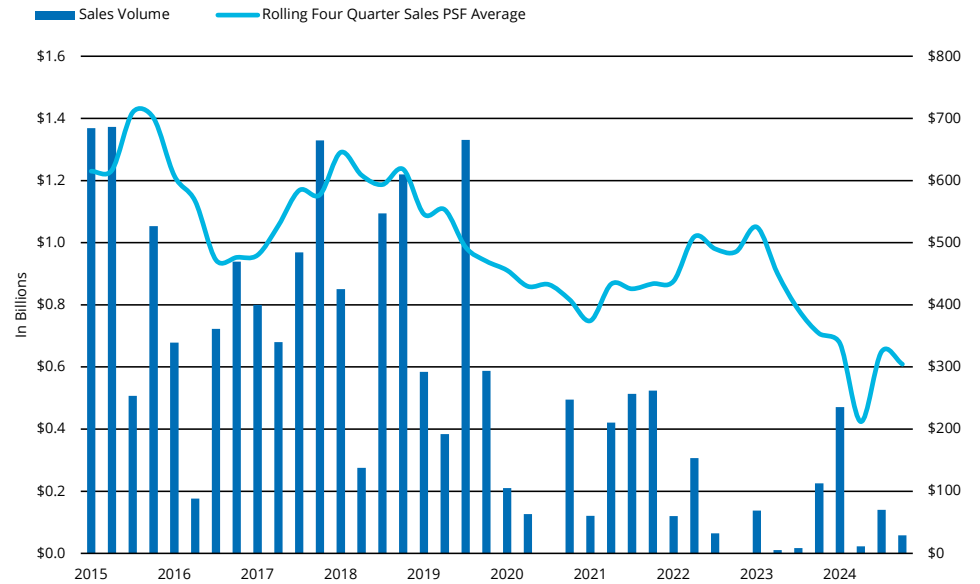


SALES

Market Trades Remain Slow in Q4 2024

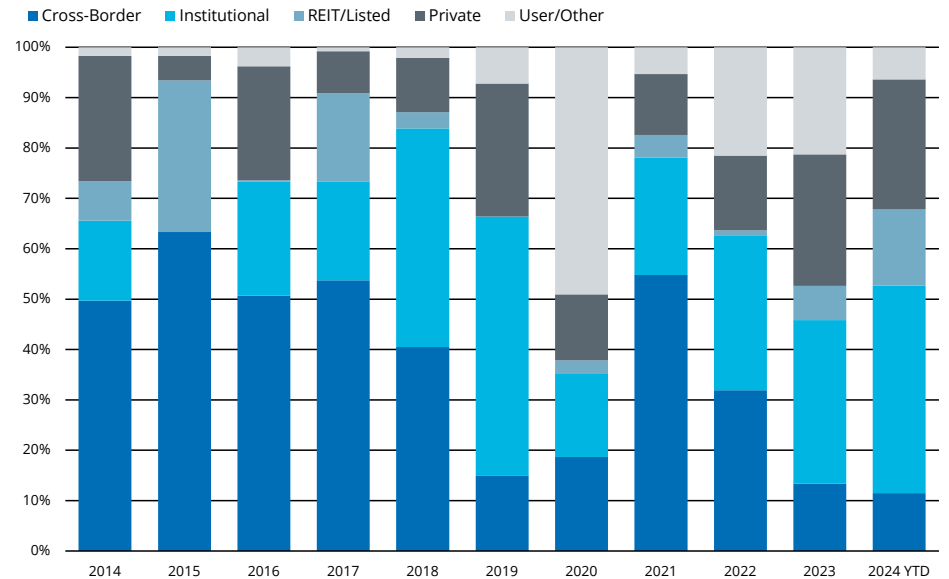
- There were two transactions in the fourth quarter of 2024 totaling \$58.1 million or \$158 PSF. Melrose Solomon Enterprises purchased the 172,000 SF asset at 2001 L Street, NW from AEW Capital Management for \$30.5 million or \$178 PSF. The office building was 68% leased at the time of sale and was sold at a 10% cap rate. Additionally, Banyan Street Capital purchased the 196,000 SF Class-A building at 1250 H Street, NW from Equity Commonwealth for a total of \$27.5 million, or \$140 PSF. The transaction was seen as an asset sale, and the building was 57% leased at the time of sale.
- 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
US AGENCY FOR GLOBAL MEDIA (VOICE OF AMERICA)	1875 Pennsylvania Ave NW	CBD	New Lease	315,859
DC DEPARTMENT OF GENERAL SERVICES	899 N Capitol St NE	NoMa	New Lease	169,336
COURT SERVICES & OFFENDER SUPERVISION AGENCY	501 3rd St NW	NoMa	New Lease	125,096
ARENTFOX SCHIFF	1100 15th St NW	East End	New Lease	119,555
NATIONAL LABOR RELATIONS BOARD	1015 Half St SE	Capitol Riverfront	Renewal	92,199
MILLER & CHEVALIER	900 16th St NW	CBD	Renewal	90,000

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1250 H ST NW	East End	Nov-24	\$27,500,000	196,490	\$140	Banyan Street Capital	Equity Commonwealth
2001 L ST NW	CBD	Oct-24	\$30,550,000	171,891	\$178	Melrose Solomon Enterprises	AEW Capital Management
1000 POTOMAC ST NW	Georgetown	Sep-24	\$16,500,000	145,000	\$114	Related Fund Management Network Realty Partners	Equus Capital Partners, Ltd.
701 8TH ST NW	East End	Aug-24	\$34,250,000	134,448	\$255	Douglas Development Corporation	Voya Investment Management, LLC.
1201 CONNECTICUT AVE NW	CBD	Aug-24	\$21,500,000	169,549	\$127	Duball LLC	BrightSpire Capital, Inc.

Source: CoStar, Real Capital Analytics, Transwestern.



MARKET INDICATORS

All Classes of Space | Q4 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	43,010,309	6,907,456	16.1%	16.7%	201,384	103,000	8,000	\$53.70
EAST END	48,408,663	7,551,751	15.6%	16.9%	442,000	184,000	(383,000)	\$57.24
CAPITOL HILL	6,397,058	1,170,662	18.3%	18.9%	0	122,000	80,000	\$55.88
NOMA	11,709,053	860,615	7.4%	7.6%	0	(6,000)	(185,000)	\$50.41
CAPITOL RIVERFRONT	5,762,589	530,158	9.2%	11.3%	0	42,000	46,000	\$54.43
SOUTHWEST	13,153,644	1,582,383	12.0%	12.6%	0	24,000	(24,000)	\$50.93
GEORGETOWN	2,936,331	936,690	31.9%	31.9%	0	(11,000)	(20,000)	\$44.81
WEST END	3,892,187	548,798	14.1%	19.2%	0	15,000	0	\$49.63
UPTOWN	9,545,269	1,448,972	15.2%	15.6%	0	(20,000)	(27,000)	\$40.61
TOTAL	144,815,103	21,537,485	14.9%	15.8%	643,384	453,000	(505,000)	\$53.18

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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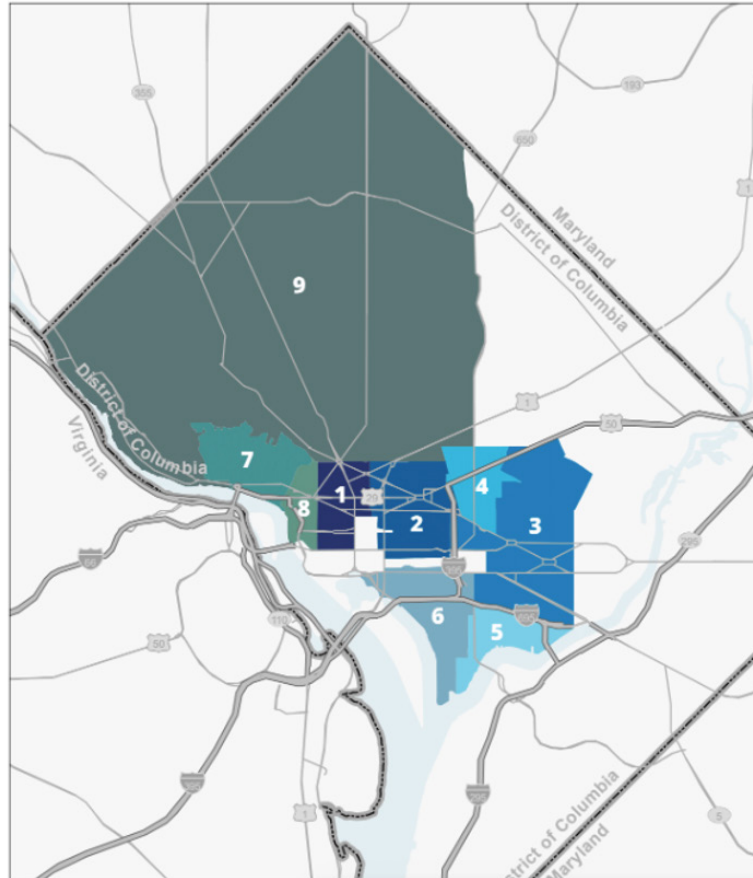
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District of Columbia Office Submarkets

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