

NEWMARK

# District of Columbia Office Market Overview

1Q26

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# Market Observations

The District of Columbia's vacancy rate ended the first quarter of 2026 at 20.6%, even with the previous quarter and up 140 basis points year-over-year.

Net absorption registered negative 29,561 SF during the first quarter, the fifth consecutive quarter with negative net absorption after DOGE-driven occupancy losses throughout the previous year.

Average asking rates have finally turned a corner, increasing by 0.2% over the quarter and 0.5% over the year. Asking rents reached the highest level since the middle of 2021, ending the first quarter at \$57.34/SF.

The District's trophy office product has outperformed all other asset classes, with vacancy tightening 870 basis points since peaking during the second quarter of 2020, ending the first quarter at 10.9%.



The District of Columbia's development pipeline remains historically low, with one delivery occurring during 2025 and no projects currently under construction.

There were no deliveries during the first quarter of 2026, following just one delivery, 600 Fifth Street, NW during 2025. It was the market's first new office property added since the second quarter of 2024.

Conversions covering more than 7.0 million SF of office space have been completed or proposed in the District since 2020.

Office-using jobs in the region are currently 3.1% higher than five years ago, but only slightly higher than in March 2020, just before the pandemic began. Year-over-year office employment declined by 2.3%.

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# 01

## Economy

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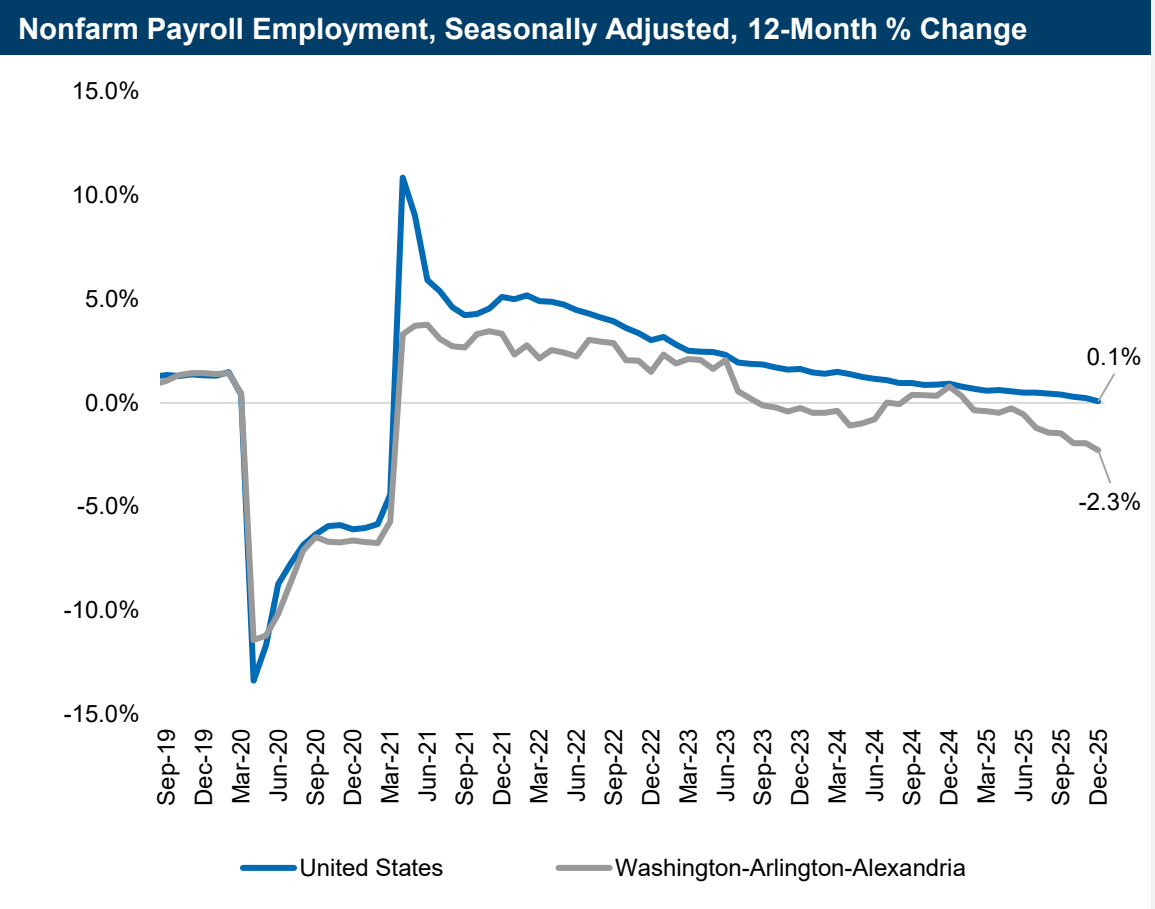
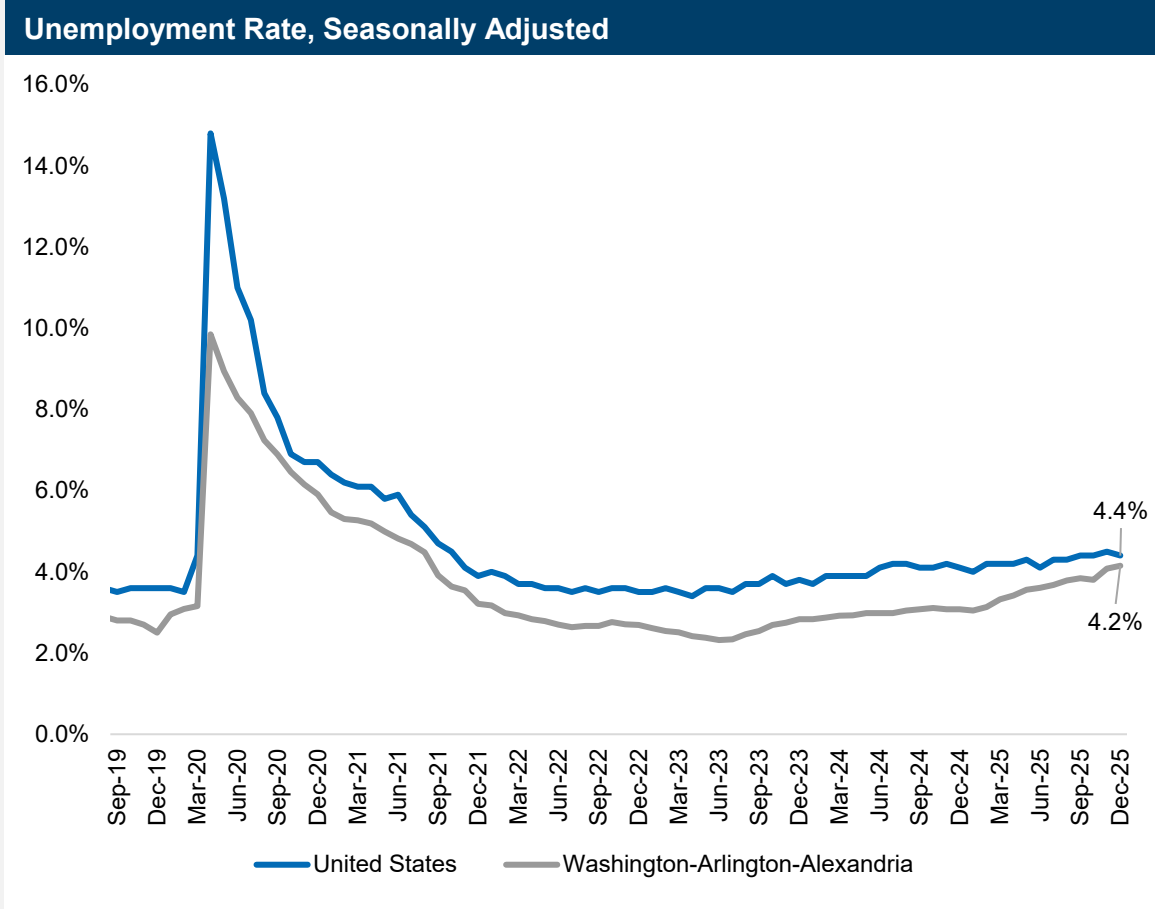
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# Local Nonfarm Employment Data Shows Job Contraction During 2025

According to the most recently released data, the labor market remains tight, though more data from recent months will likely show growing unemployment in the Washington region. The fall's federal government shutdown, as well as deferred resignations, contributed to negative employment growth. The metro's unemployment rate increased quarter-over-quarter as data became available after the shutdown ended, though without October figures included. As of December 2025, the region's unemployment rate was 4.2%, an increase of 110 basis points compared with the same period last year. 12-month seasonally adjusted regional nonfarm job growth was negative for much of 2025, declining by 2.3% as of December.

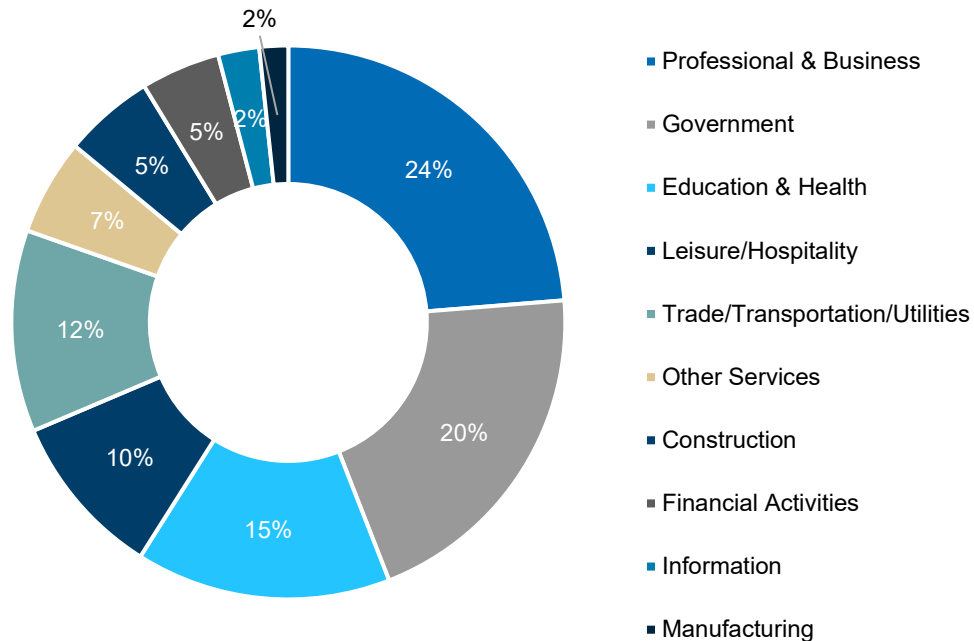


Source: Moody's, Washington-Arlington-Alexandria; Newmark Research  
 \*October 2025 federal government shutdown missing data addressed with duplicating September 2025's data

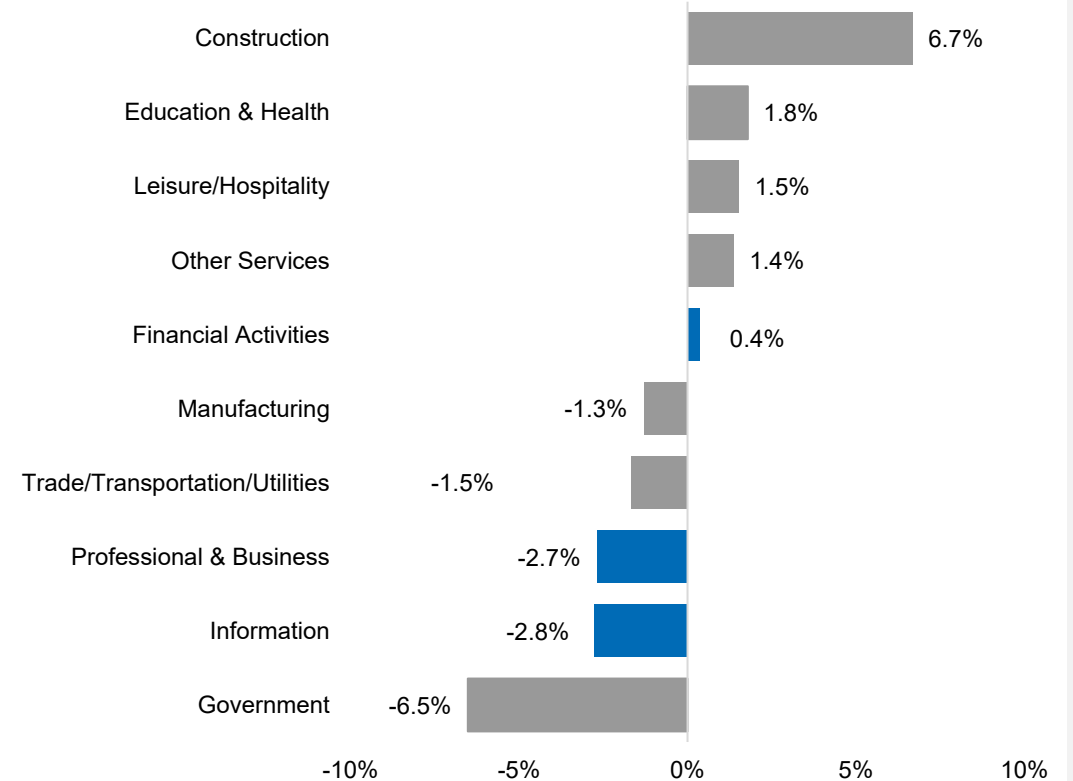
# Washington Metro Area Job Growth Driven by Construction and Education & Health

The Construction sector propped up job growth in the region with a 6.7% 12-month increase. The Education & Health, Leisure/Hospitality and Other Services sectors also experienced 12-month growth. The Financial Activities sector was the only office-using sector to see positive, though limited, growth over the last twelve months, at 0.4%, while the Professional & Business Services (-2.7%) and Information (-2.8%) sectors experienced job contraction. The Government sector registered job losses of 6.5% year-over-year after the impacts of DOGE and federal government cuts. According to the Bureau of Labor Statistics, the region saw federal government jobs decline by 14.3% during 2025.

Employment by Industry, December 2025



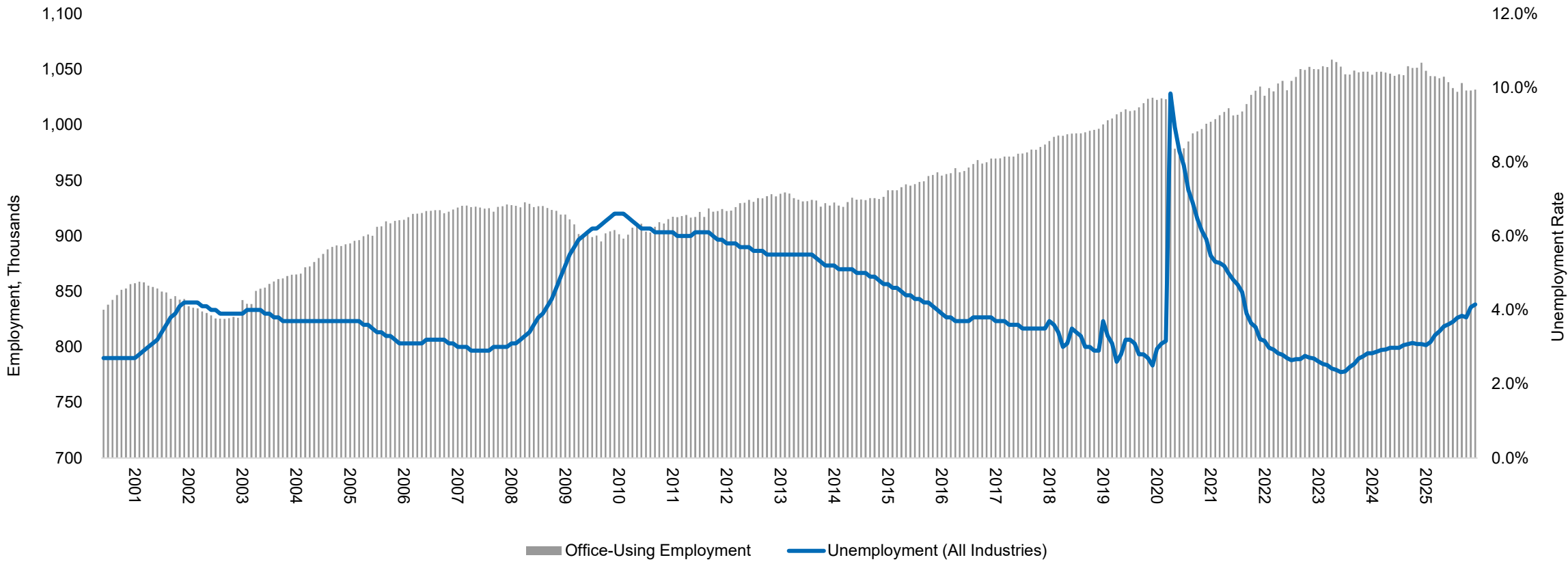
Employment Growth by Industry, 12-Month % Change, December 2025



# Office-Using Employment Has Lost Traction

The number of office jobs exceeds pre-pandemic levels as of December 2025 – the most recently available data – but are down year-over-year. Office-using jobs in the region are currently 3.1% higher than five years ago, but only 0.9% higher than in March 2020, just before the pandemic began. Year-over-year office employment declined by 2.3%, due in part to DOGE actions and their impact on the regional workforce. While government job losses were impactful, private sector stagnation as a result may prove just as significant. Declines in two out of three office-using sectors demonstrate the need for a new office stimulant to propel growth in the region.

Office-Using Employment\* and Unemployment Across All Industries



Source: Moody's; Newmark Research

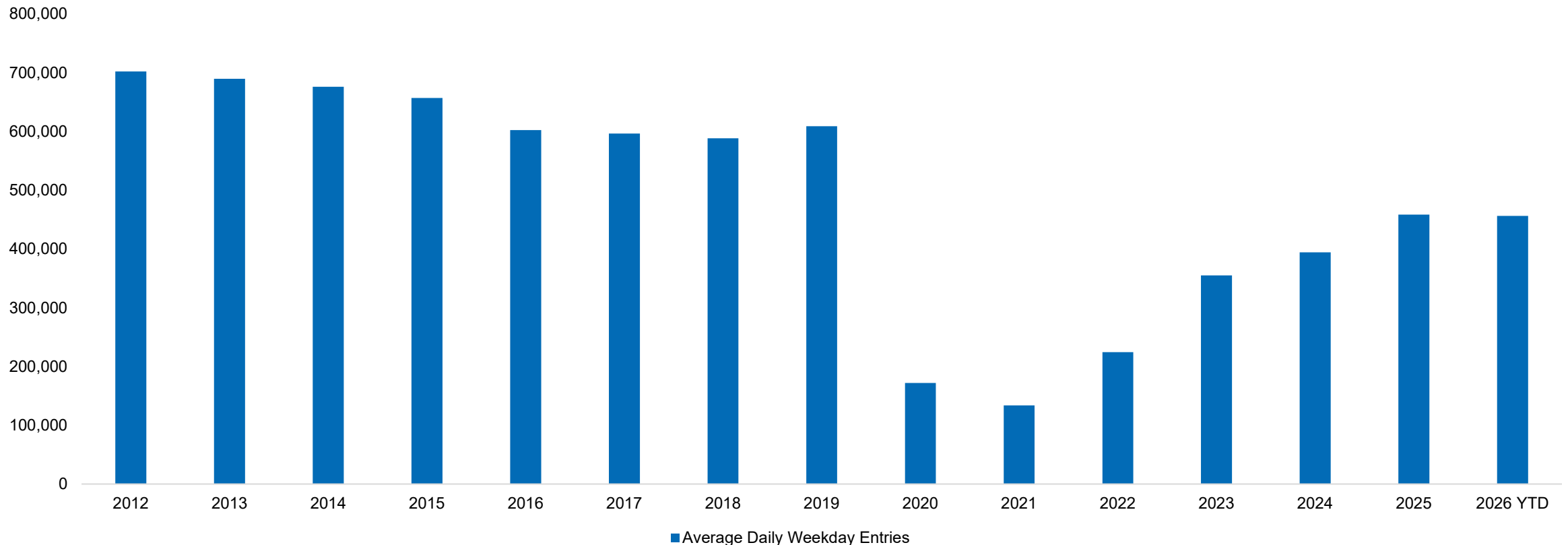
\*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

\*\*October 2025 federal government shutdown missing data addressed with duplicating September 2025's data

# WMATA Ridership Level to Start 2026

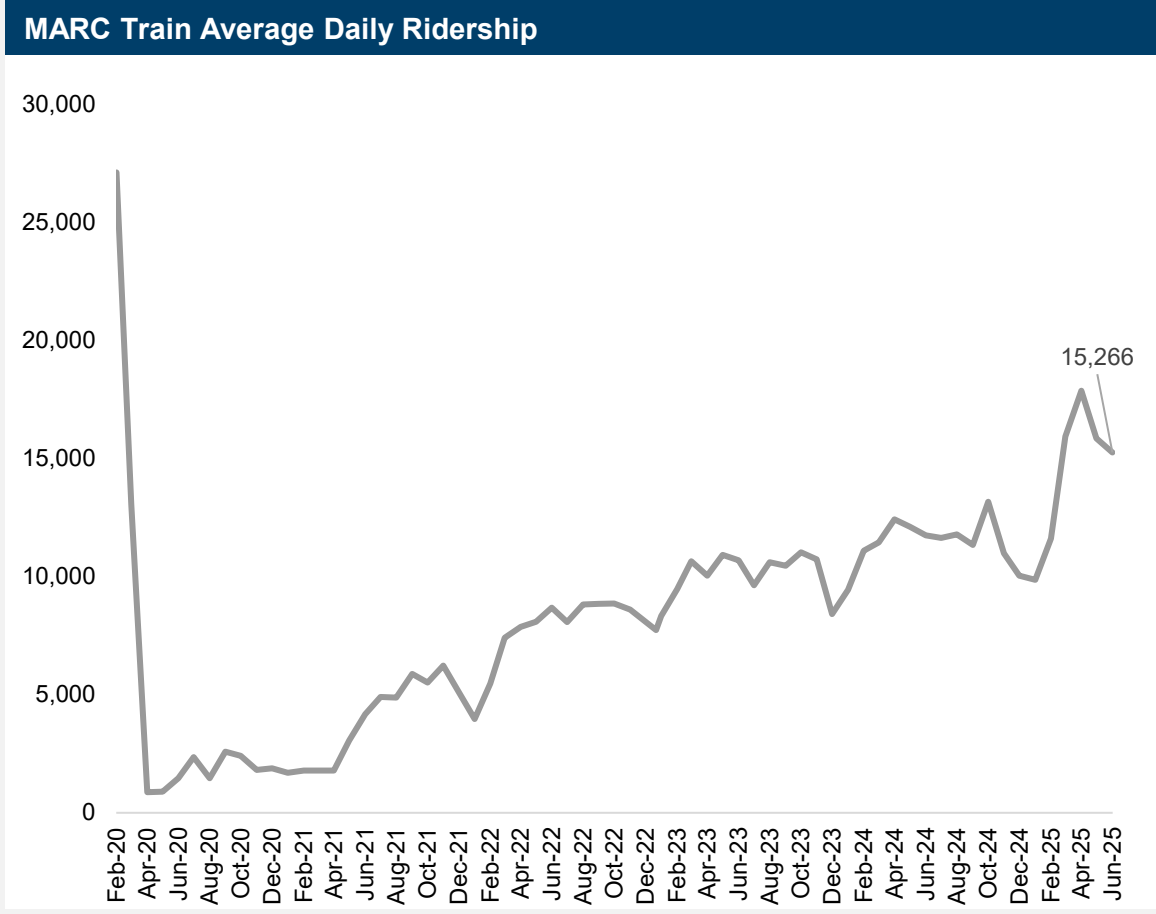
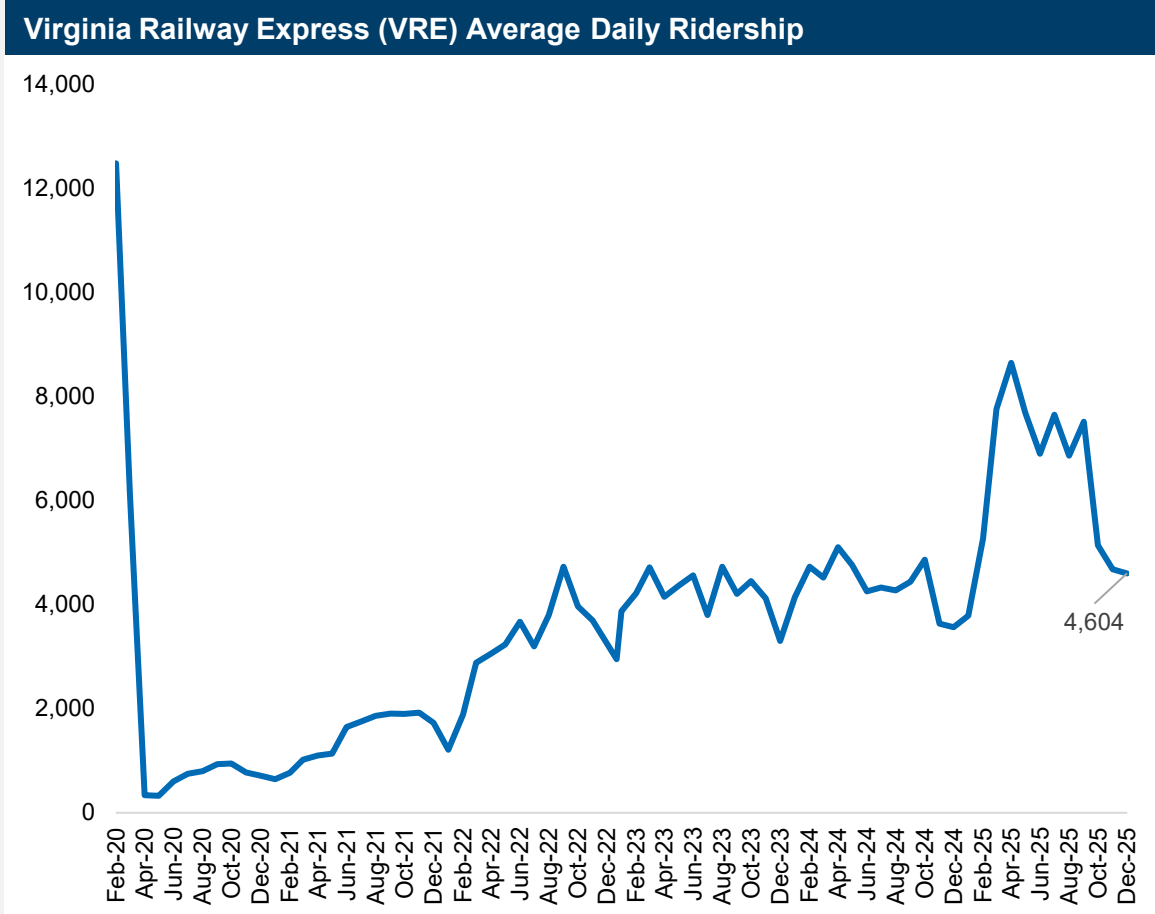
WMATA ridership has increased each of the last four years after reaching a low in 2021, during the heart of the COVID-19 pandemic. Ridership was relatively consistent between 2012 and 2019, averaging nearly 650,000 daily weekday entries at stations throughout the system. Between 2019 and 2021, ridership levels declined by 78.0%, but have since recovered approximately 325,000 daily entries. Over the previous three years, ridership during the first quarter was approximately 6% below the annual average, signaling that, although ridership is essentially level with 2025 to begin the year, a continuance of the trend of gradual increased ridership is likely throughout the remainder of 2026.

**WMATA Metro Station Average Daily Weekday Entries**



# Government Shutdown Takes A Bite Out of Regional Transportation Recovery

The modes of local transportation that have been most affected by the COVID-19 pandemic are the Virginia Railway Express and the MARC Train, with significant declines in average daily ridership during the initial months of the pandemic. Recent data varies, with VRE registering large decreases in ridership over the final months of 2025, a likely result of the prolonged government shutdown that impacted many federal workers. The most recent data from MARC is from June of 2025, before the shutdown, so a clear picture of recent ridership trends is unavailable. Overall, recovery remains modest for both the VRE and Marc Train, which have both struggled to regain Covid-era losses.



Source: Newmark Research; MTA; VRE



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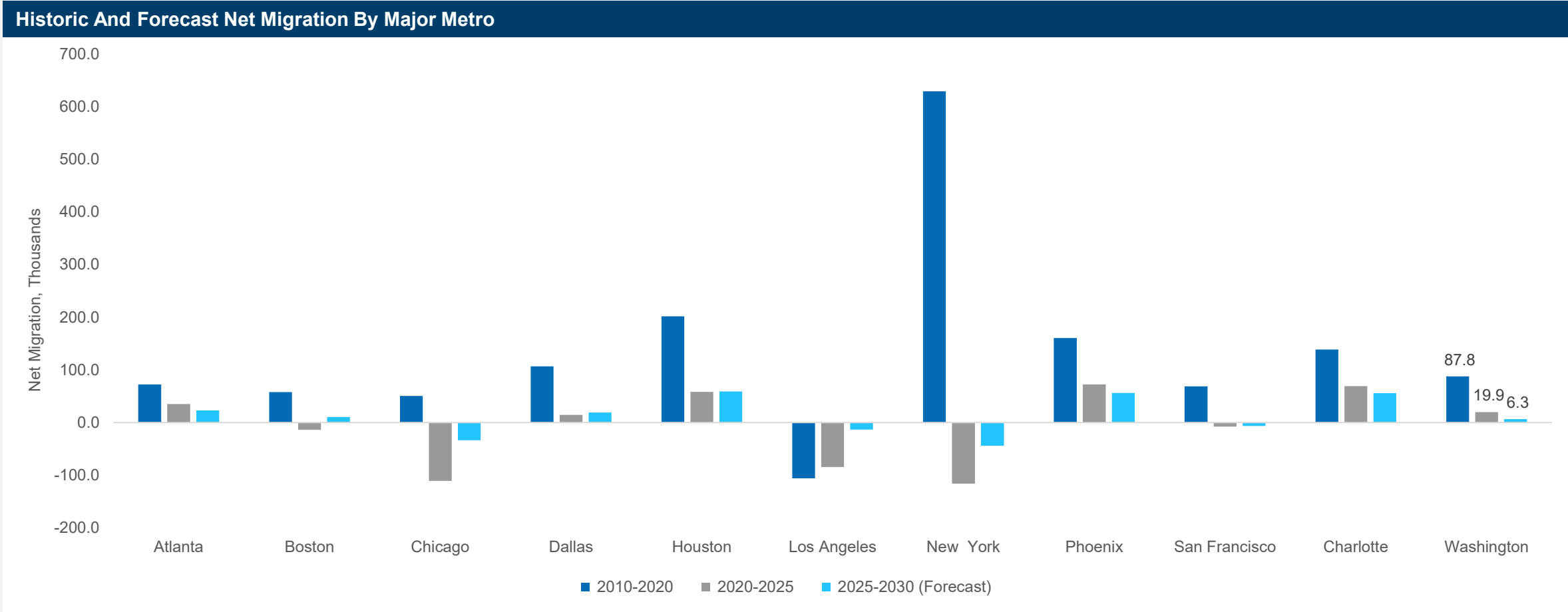
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# District of Columbia Net Migration Expected to Slow Over Next Five Years

During the 2010-2020 cycle, the District’s in-migration outpaced out-migration with nearly 88,000 new residents in the years leading up to the Covid pandemic. District of Columbia in-migration slowed between 2020 and 2025, and ESRI expects this trend to continue with positive net migration of just 6,300 residents between 2025 and 2030—one of the biggest post-pandemic recoveries among large cities outside of the Sun Belt cities.



# 02

## Leasing Market Fundamentals

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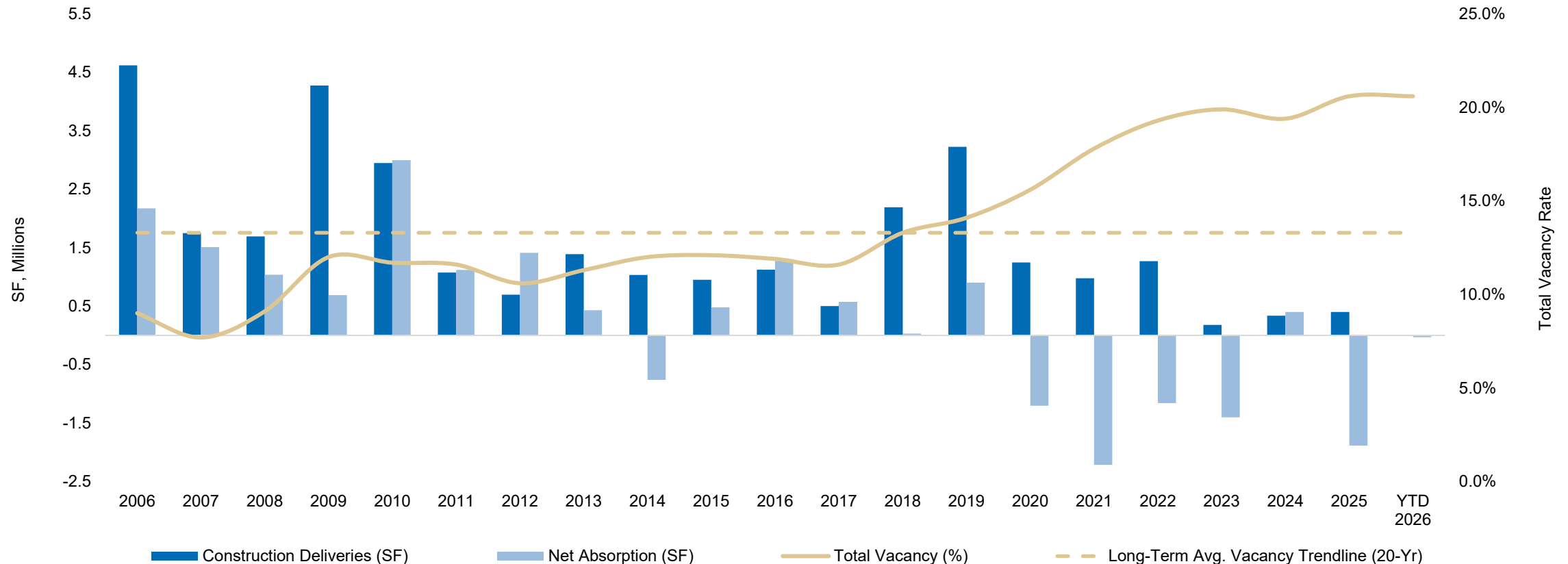
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# Vacancy Flat To Begin 2026 As Construction Pipeline Evaporates

The District of Columbia's vacancy rate ended the first quarter of 2026 at 20.6%, even with the previous quarter but up 140 basis points year-over-year. While the District experienced nearly 1.9 MSF of occupancy loss last year, the market registered only slightly negative net absorption to begin 2026. The District's lack of construction pipeline may ease vacancy pressures over the coming years, as there are currently no properties under construction and only two currently planned properties, both of which are almost completely pre-leased. However, remaining uncertainty around the federal government and a lack of a demand stimulant to replace its losses may propel the market into an era of stagnation.

## Historical Construction Deliveries, Net Absorption, and Vacancy





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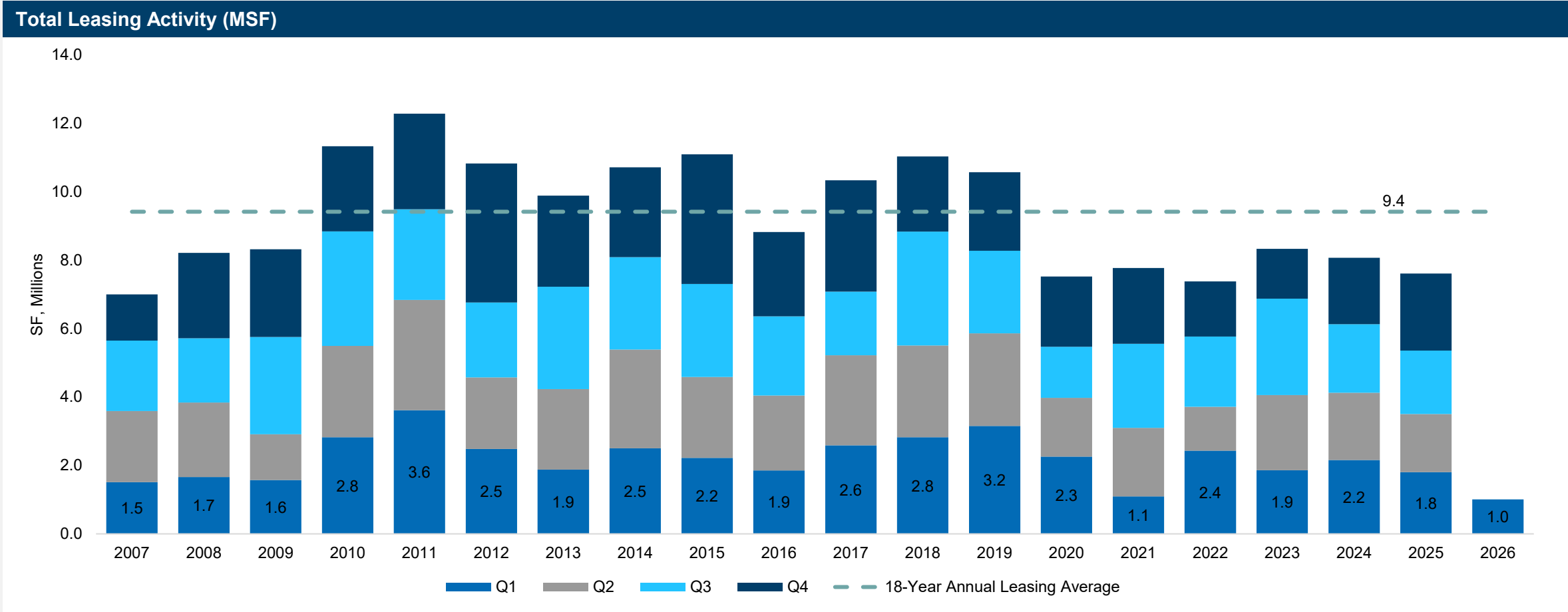
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# First Quarter Leasing Activity Slowest Over Last Twenty Years

The District of Columbia office market registered approximately 1.0 MSF of leasing activity during the first quarter of 2026, a noticeable slowdown compared with previous years, though this number is likely to increase once all first-quarter leases are tallied. Leasing activity for the first quarter of 2026 falls 44.3% below activity from the same period last year, 46.2% behind the previous five-year first-quarter average, and 54.3% below the previous ten-year first-quarter average. Law firms seeking the limited trophy space that exists, as well as smaller tenants seeking spec suites (typically under 10,000 SF), continue to drive leasing activity in the District.



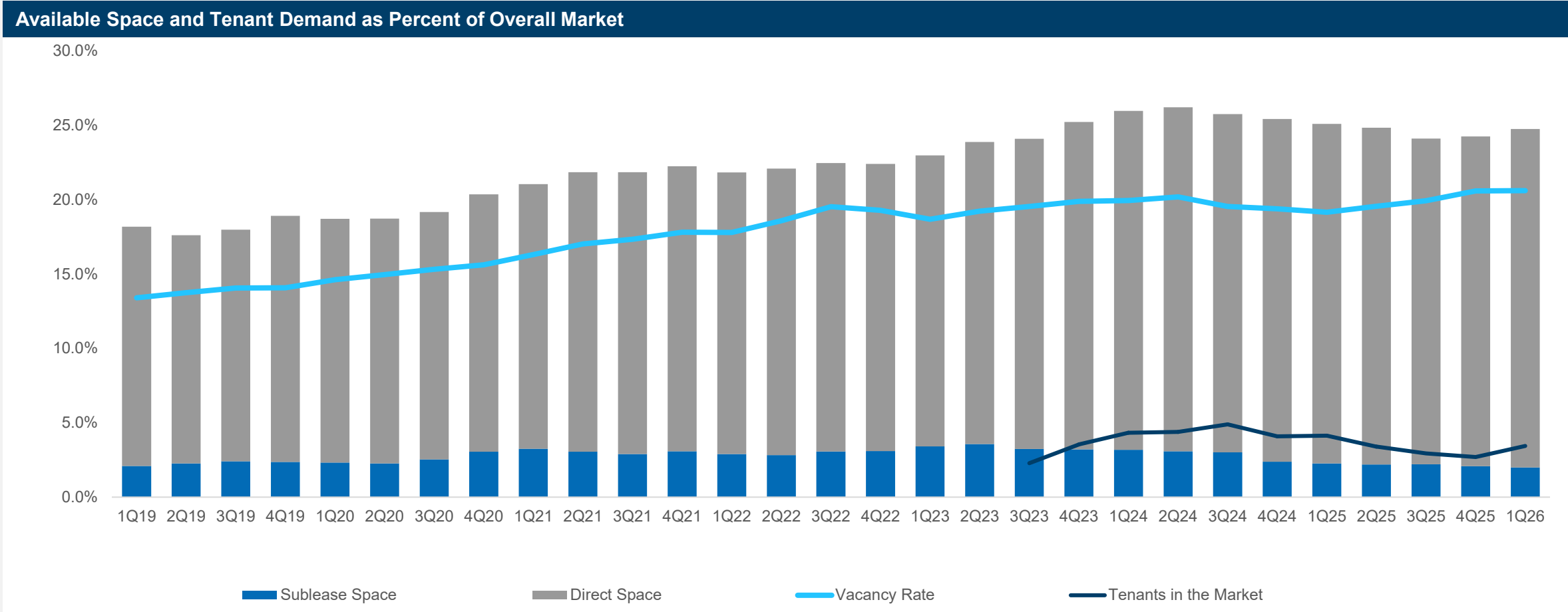
Source: Newmark Research, CoStar  
 \*Most recent quarter data is subject to change due to lag in CoStar data



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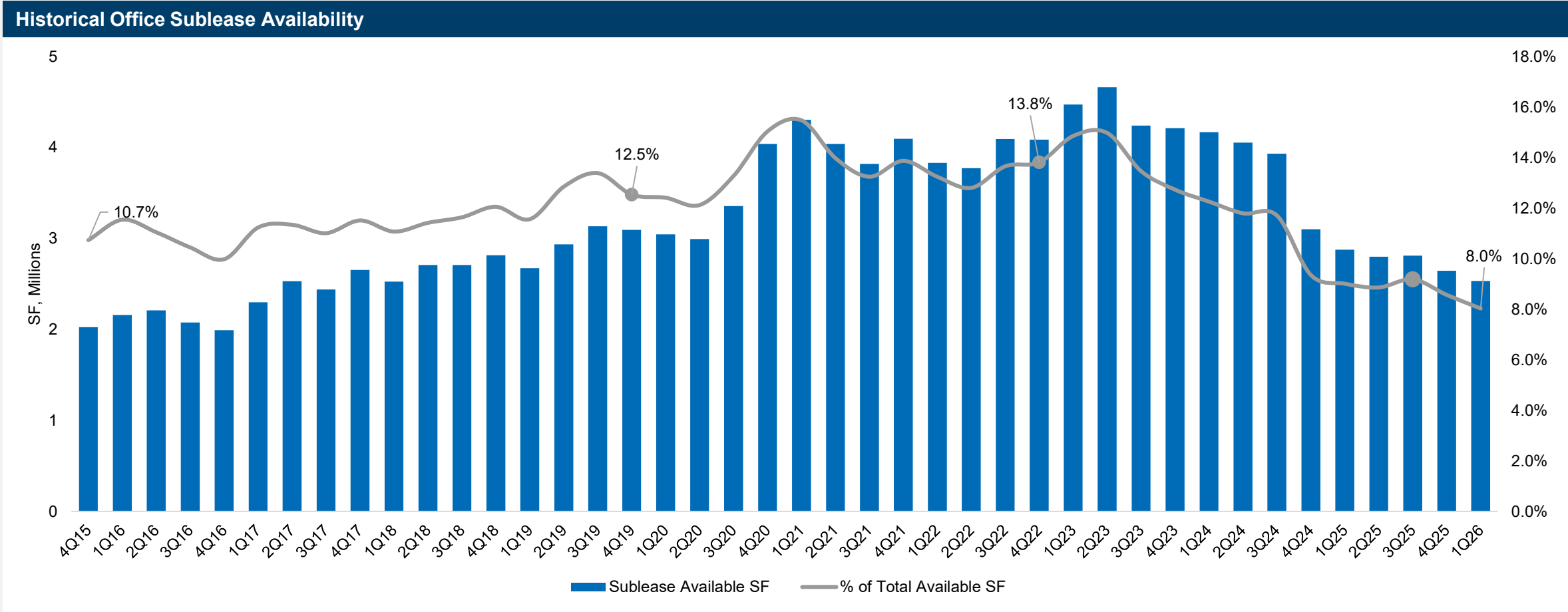
# Availability, Tenant Demand Trend Higher

District of Columbia sublease availability registered 2.0% at first quarter 2026, a decrease of 13.0% year-over-year and 44.4% since peaking during the second quarter of 2023. The Washington metro area has among the lowest sublease availability rates of the nation’s gateway markets. The decline in sublease availability illustrates the increasing demand for ready-to-go functional office space in the District. Overall availability rates have come down slightly from their peak in 2024 but have increased each of the last two quarters and remain elevated. The first-quarter direct availability rate of 22.8% is even with the year prior but well above the five-year average of 20.9%.



# District Sublease Availability Continues Nearly Three-Year Decline

Sublease inventories in the District of Columbia have been steadily moderating since peaking during the second quarter of 2023, totaling just 2.5 million square feet as of the first quarter of 2026. As a share of total available office space in the District, sublease offerings have declined each quarter since. Overall, sublease availability in D.C. makes up just 8.0% of total availability to start the year, with a sublease availability rate of 2.0%. The bulk of the District’s sublease availability exists in the CBD and East End submarkets, the two largest in the city.

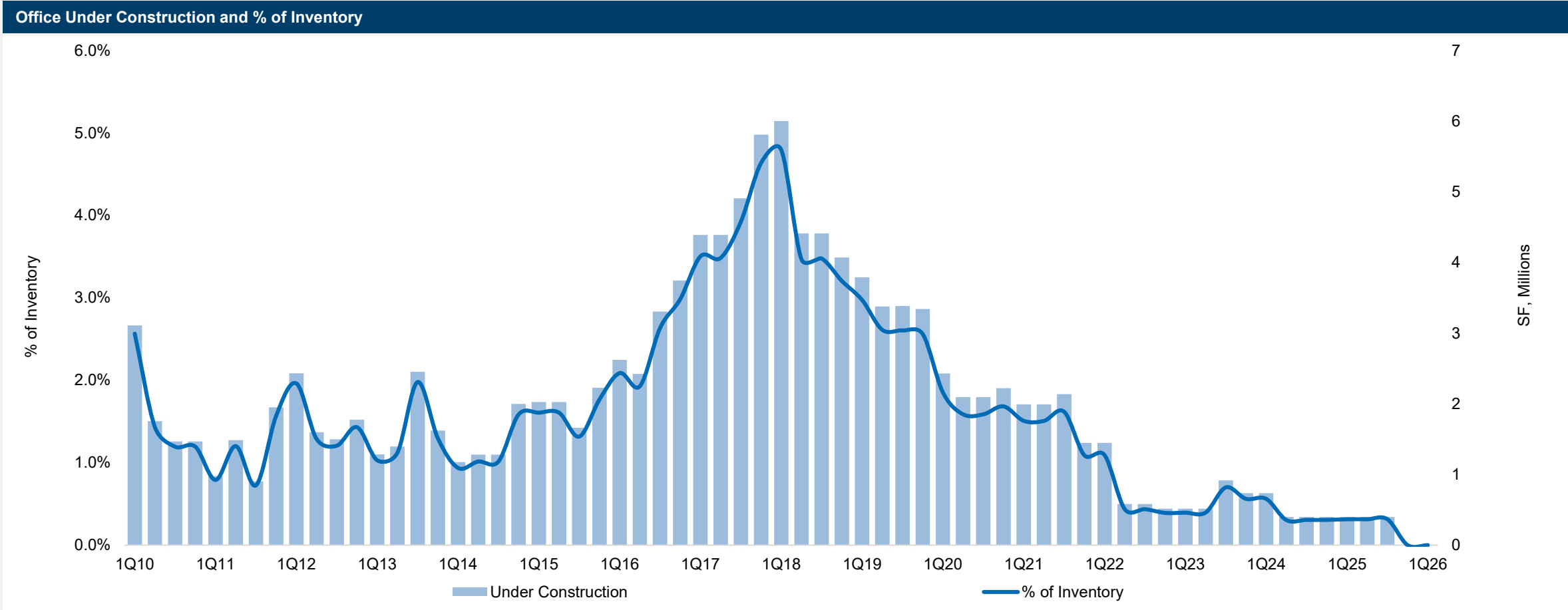




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# District Office Construction Pipeline Remains Historically Low

The District of Columbia’s development pipeline remains historically low, with one delivery occurring during 2025 and no projects currently under construction, though 2026 will see 725 12<sup>th</sup> Street, NW begin construction. The market’s lone completed project since the second quarter of 2024, 600 Fifth Street, NW, was approximately 50% preleased at delivery, though it remains vacant as the anchor tenant will not occupy its space until later in 2026.





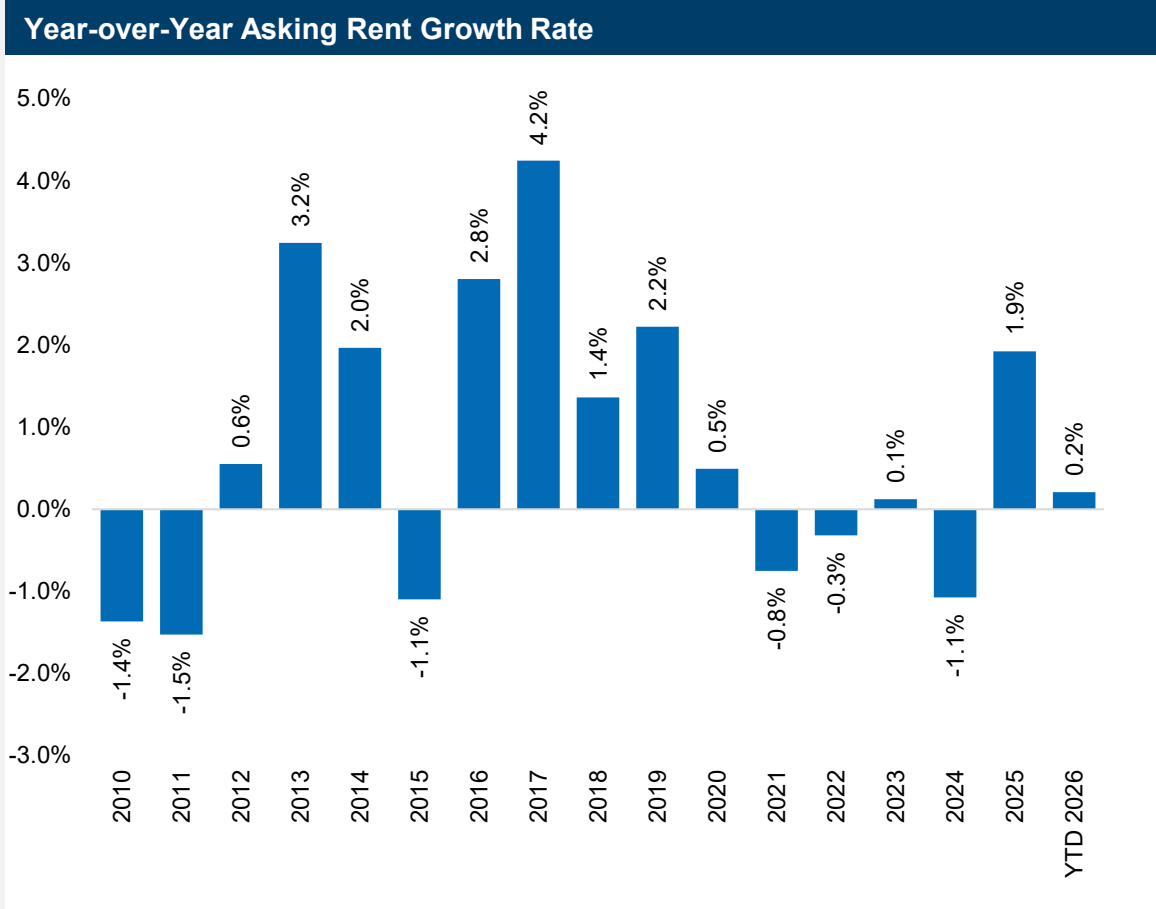
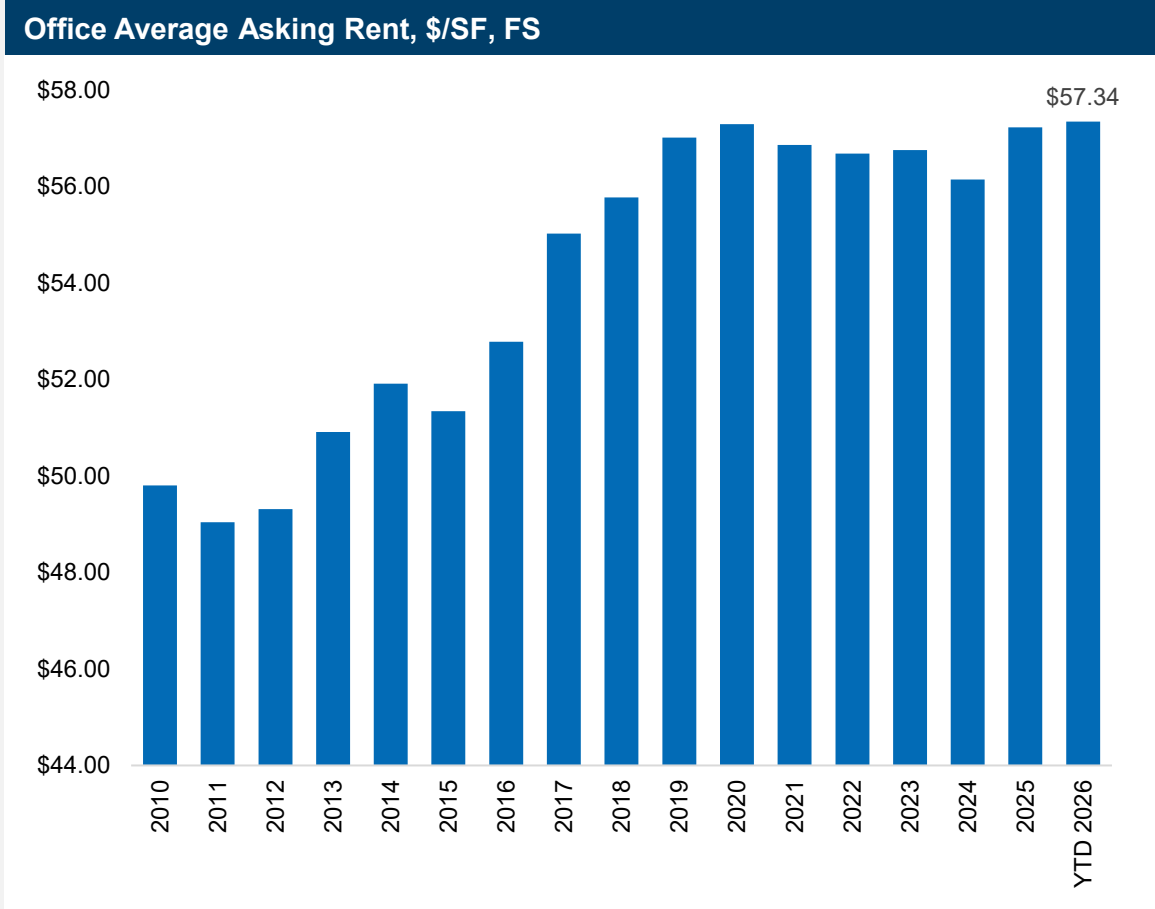
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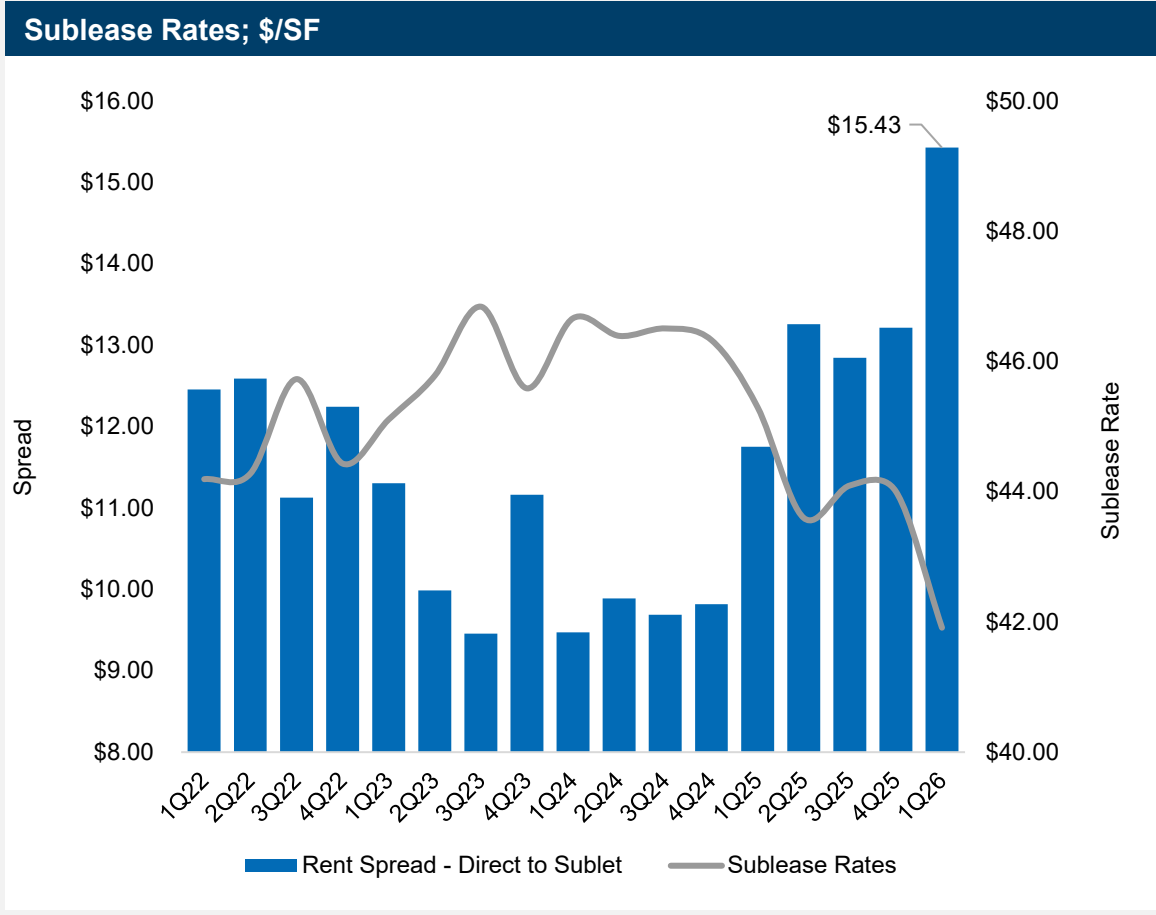
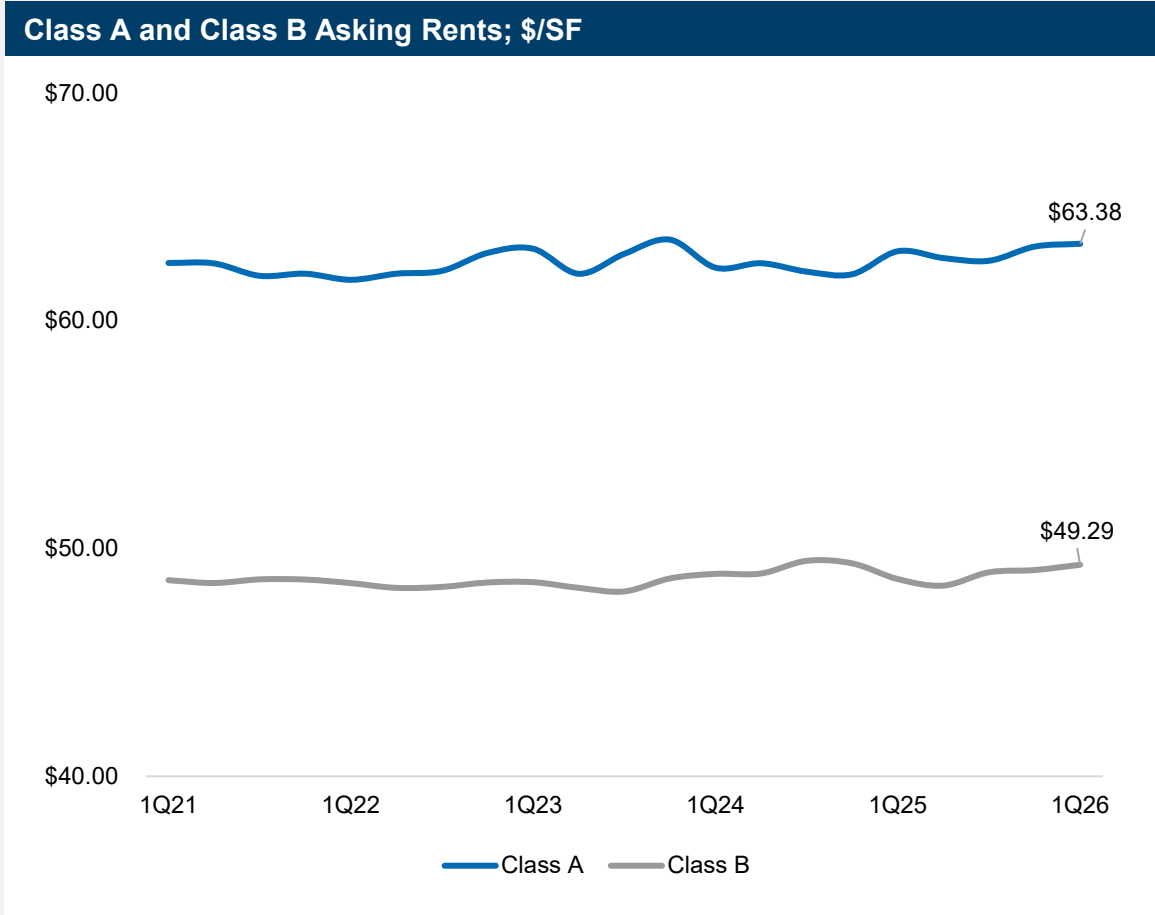
# District of Columbia Asking Rents Grow Slightly To Start 2026

Asking rental rates increased 0.2% quarter-over-quarter and 0.5% year-over-year, after decreasing in three of the previous four years. Ending the first quarter of 2026 at \$57.34/SF, asking rental rates remain approximately 0.2% below the peak reached in 2020. Continued limited demand—and in some cases, a lack of capital for concessions—has placed downward pressure on asking rents in the District in previous quarters. Although availability has increased in each of the last two quarters, it has declined since peaking in 2024. This overall contraction, combined with the conversion of obsolete office space to other uses, helps to raise average rents to a level more reflective of competitive product.



# Spread Between Class A and Class B Asking Rents Tightens

The spread between Class A and Class B rents tightened during the first quarter of 2026. Class A rents increased by 0.5% year-over-year, while Class B rents were up by 1.3% over the same period. Over the past five years, Class A rents have increased by 1.3% compared with 1.4% for Class B rents. The rent spread between direct and sublet deals grew to \$15.43/SF during the first quarter of 2026, an increase of 16.8% quarter-over-quarter and 31.3% year-over-year.





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## Market Statistics

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