

District of Columbia Office Market Overview

Market Observations



- Although the metro’s unemployment rate remained flat quarter-over-quarter, the region’s labor market remains tight, with unemployment 100 basis points below the national average. Regional nonfarm job growth remains positive, with a 1.1% annual increase as of February.
- Education & Health propped up job growth in the region over the past 12 months with a 3.7% increase, leading to total nonfarm employment growth of 1.1%. The Government and Financial Activities sectors also experienced 12-month growth of 1.6% and 0.9%, respectively, while the Information and Business & Professional sectors saw 12-month declines of 0.3% and 1.0%, respectively.
- Current reported jobs numbers are from February 2025 and do not reflect recent federal Reduction in Force events. Expect to see DOGE’s effects impact D.C.’s jobs numbers in next quarter’s reporting.
- While some office-using sectors experienced a decline in employment over the past year, the overall number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.0% higher than five years ago—just before the pandemic—and 7.4% higher than the pandemic-induced employment trough in June of 2020.



- Office investment sales continue to lag in pricing per square foot as well as total transaction volume with the 12-month average PSF of \$266 down from the recent peak of \$645 PSF in 1Q23. The trailing 12-month total transaction volume as of the first quarter was \$1.5 billion, down from the recent peak of \$3.8 billion in 3Q22. However, owner-user sales and conversion opportunities are bright spots propping up demand in the District of Columbia capital markets.
- Notable sales of the quarter included 1401 H Street, which traded from TIAA-CREF to Tourmaline Capital for \$122 M, or \$351/SF.



Leasing Market Fundamentals

- The District of Columbia experienced 37,698 SF of positive net absorption during the first quarter of 2025. Registering 18.9% as of the first quarter, the vacancy rate has declined 30 basis points quarter-over-quarter and 80 basis points year-over-year.
- After the Voice of America media network suddenly closed in March, the District still clocked net positive absorption this quarter—a remarkable feat in the wake of 350,000 SF going back to EastBanc, the owner of 1875 Pennsylvania Ave NW.
- The sole property under construction in the district is 600 Fifth NW, a 400,000-square-foot office building in the East End that is scheduled to deliver in the first quarter of 2026. Half of the building is already preleased to law firm Crowell & Moring.
- After decreasing year-over-year since 2021, overall asking rental rates rebounded during the first quarter of 2025, with 0.7% annual growth. Still, rents remain 1.5% lower than their peak in 2020. The conversion of obsolete office space to other uses helps to raise average rents to a level more reflective of competitive product
- D.C. continues to benefit from one of the lowest sublease availability rates (2.3%) in the nation, ranking #1 among all gateway markets for lowest sublease listings.



Outlook

- The region faces major headwinds from the new administration, especially related to tariffs and the real estate and staffing cuts driven by DOGE. Major lease transactions and development projects have been put on hold amid the uncertainty. While it continues to be an evolving situation, the net effect will likely be a continued increase in space availability and further limits on demand.
- While absorption was modest during the quarter, the continued trend of converting obsolete office space to other uses resulted in 2.8 MSF being removed from competitive office inventory as of the start of the year. With 6.2 million square feet of inventory proposed for conversion, this trend—coupled with a continued lack of speculative office construction—will help to mitigate rising vacancy in a period of limited demand.

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2. Leasing Market Fundamentals
3. Submarket Stats

1Q25

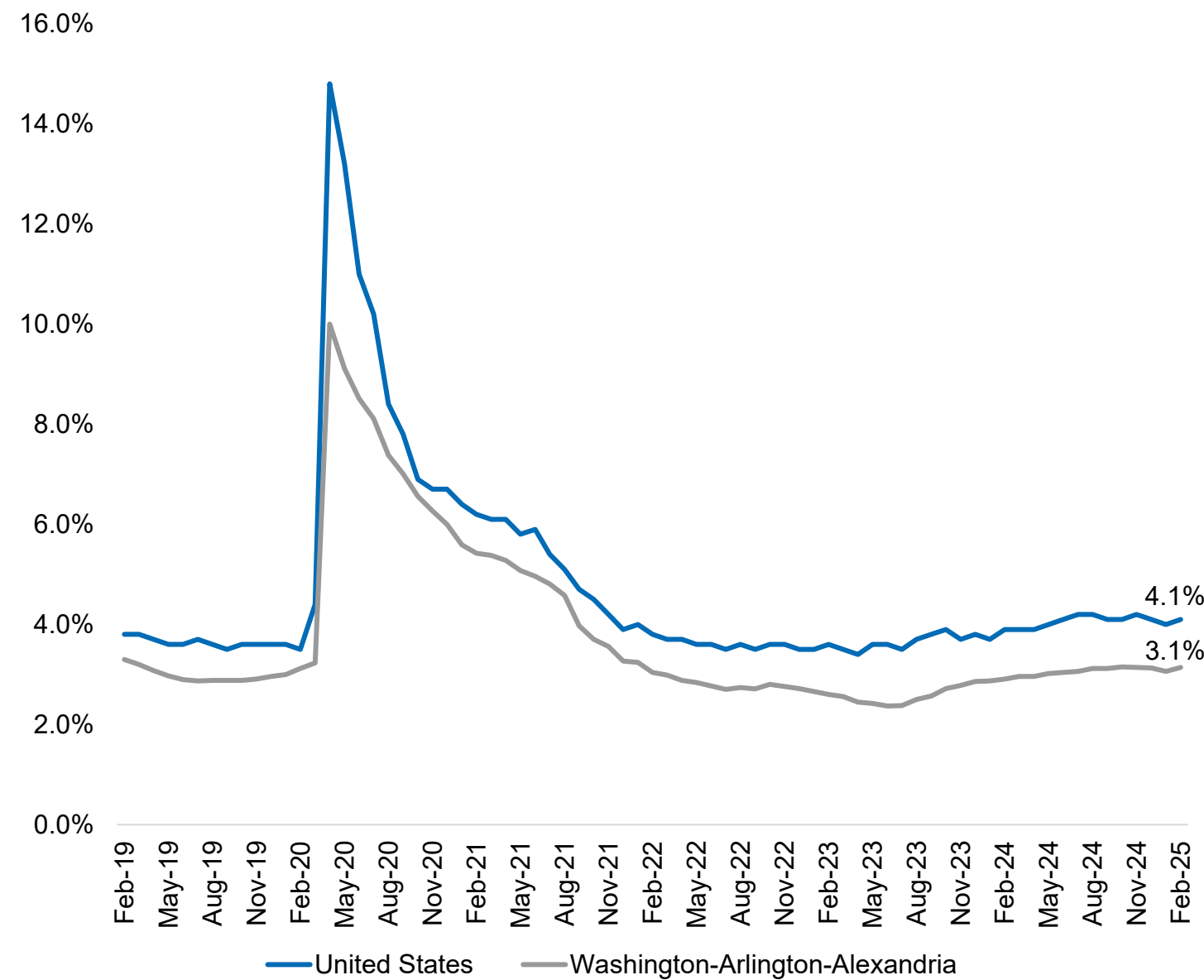
Economy



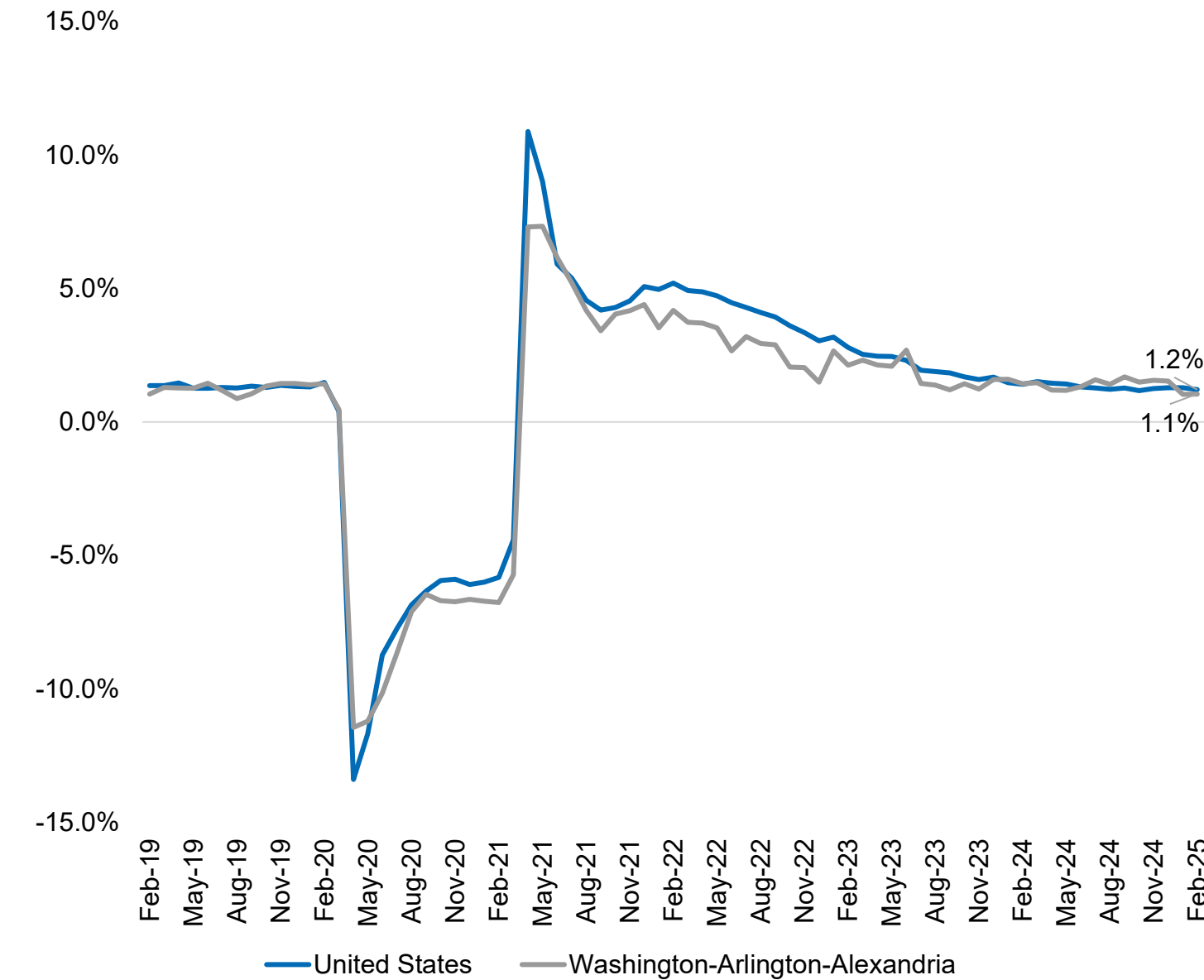
Metro Unemployment Rate Remains Tighter Than National Average

Although the metro’s unemployment rate remained flat quarter-over-quarter, the region’s labor market remains tight, with unemployment 100 basis points below the national average. Regional nonfarm job growth remains positive, with a 1.1% 12-month increase as of February.

MSA Unemployment Rate, Seasonally Adjusted



MSA Nonfarm Payroll Employment, Seasonally Adjusted, 12-Month % Change

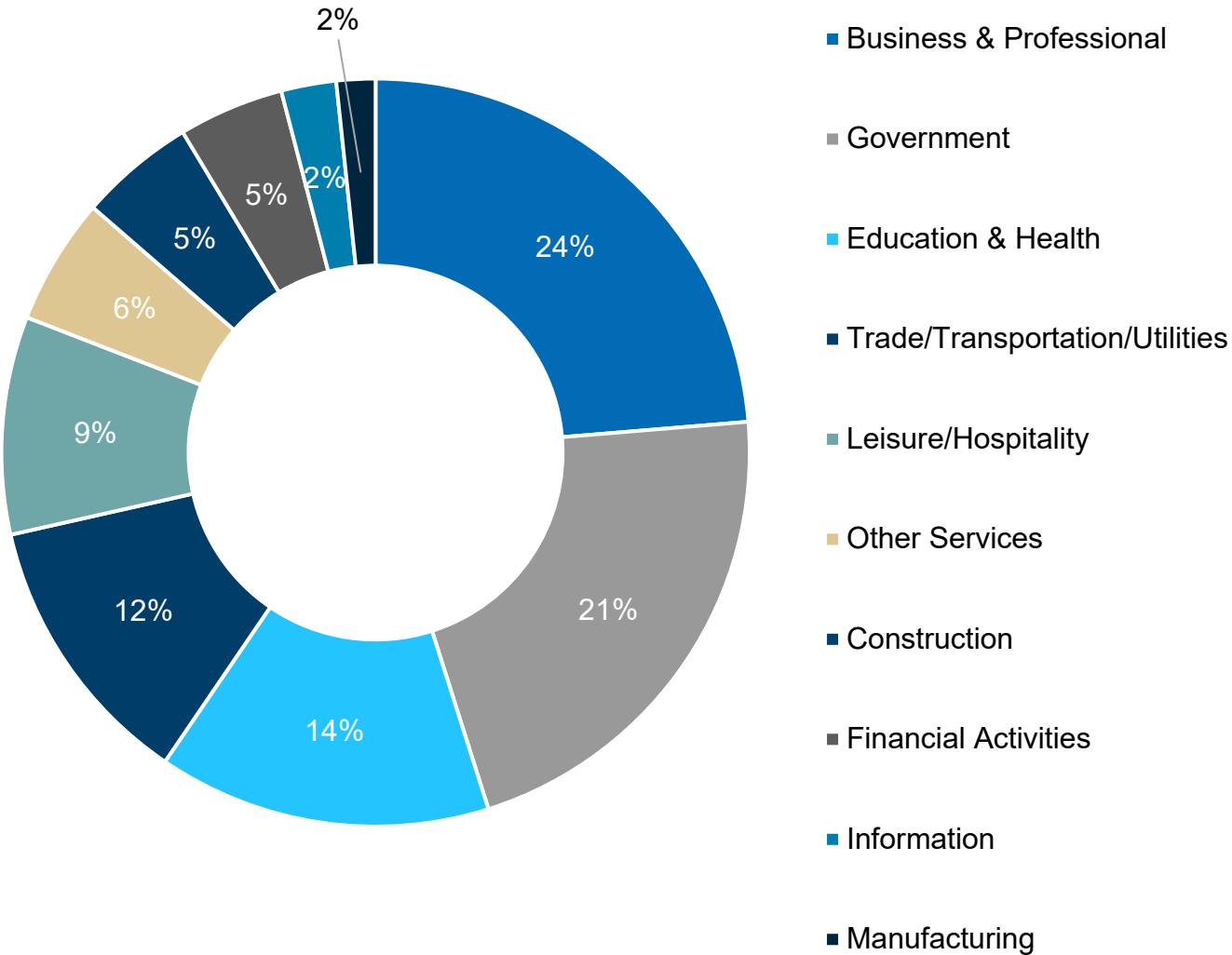


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

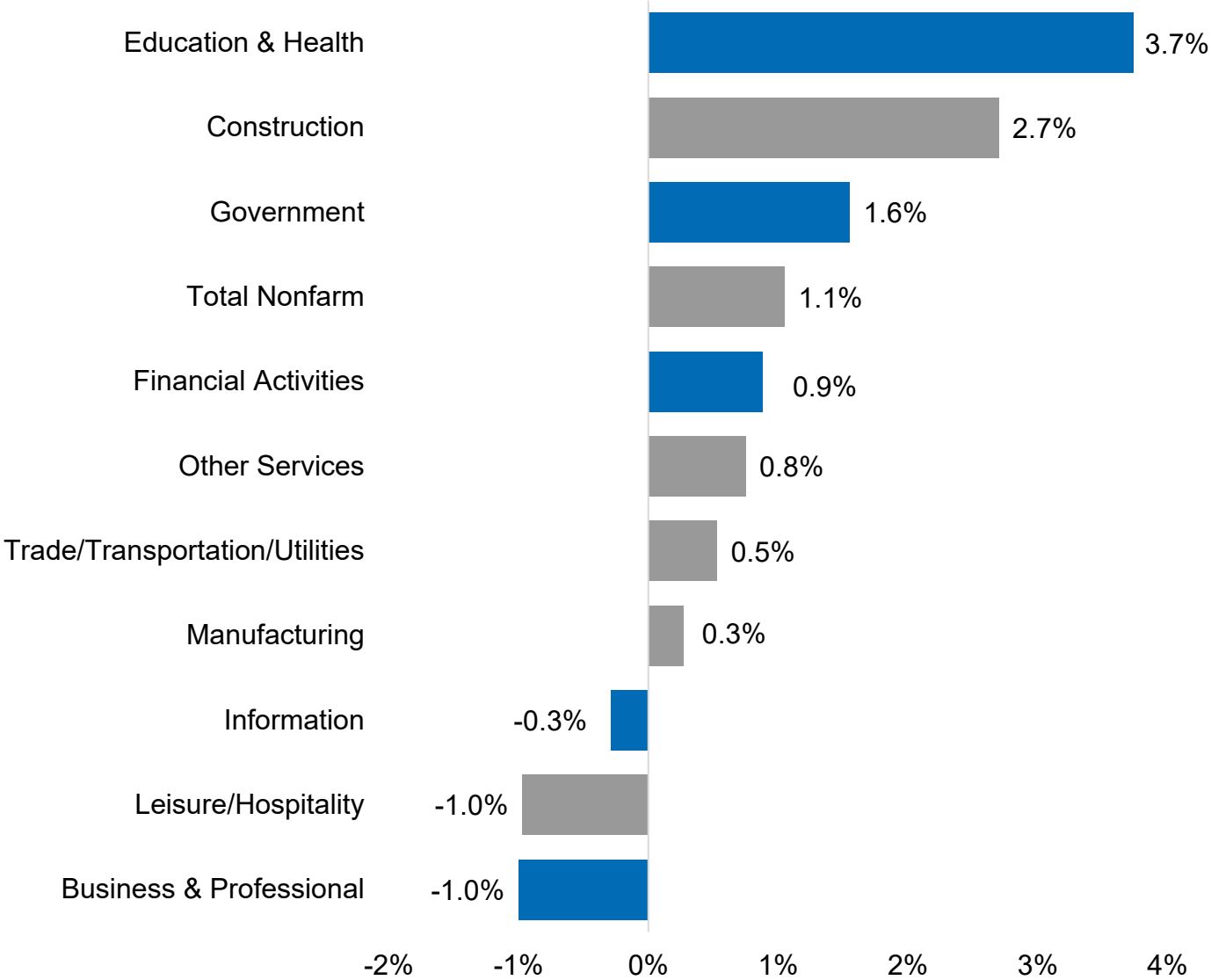
Job Growth Driven by Education & Health

Education & Health propped up job growth in the region with a 3.7% 12-month increase, leading to total nonfarm employment growth of 1.1%. The Government and Financial Activities sectors also experienced 12-month growth of 1.6% and 0.9%, respectively, while the Information and Business & Professional sectors saw 12-month declines of 0.3% and 1.0%, respectively.

Employment by Industry, February 2025



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

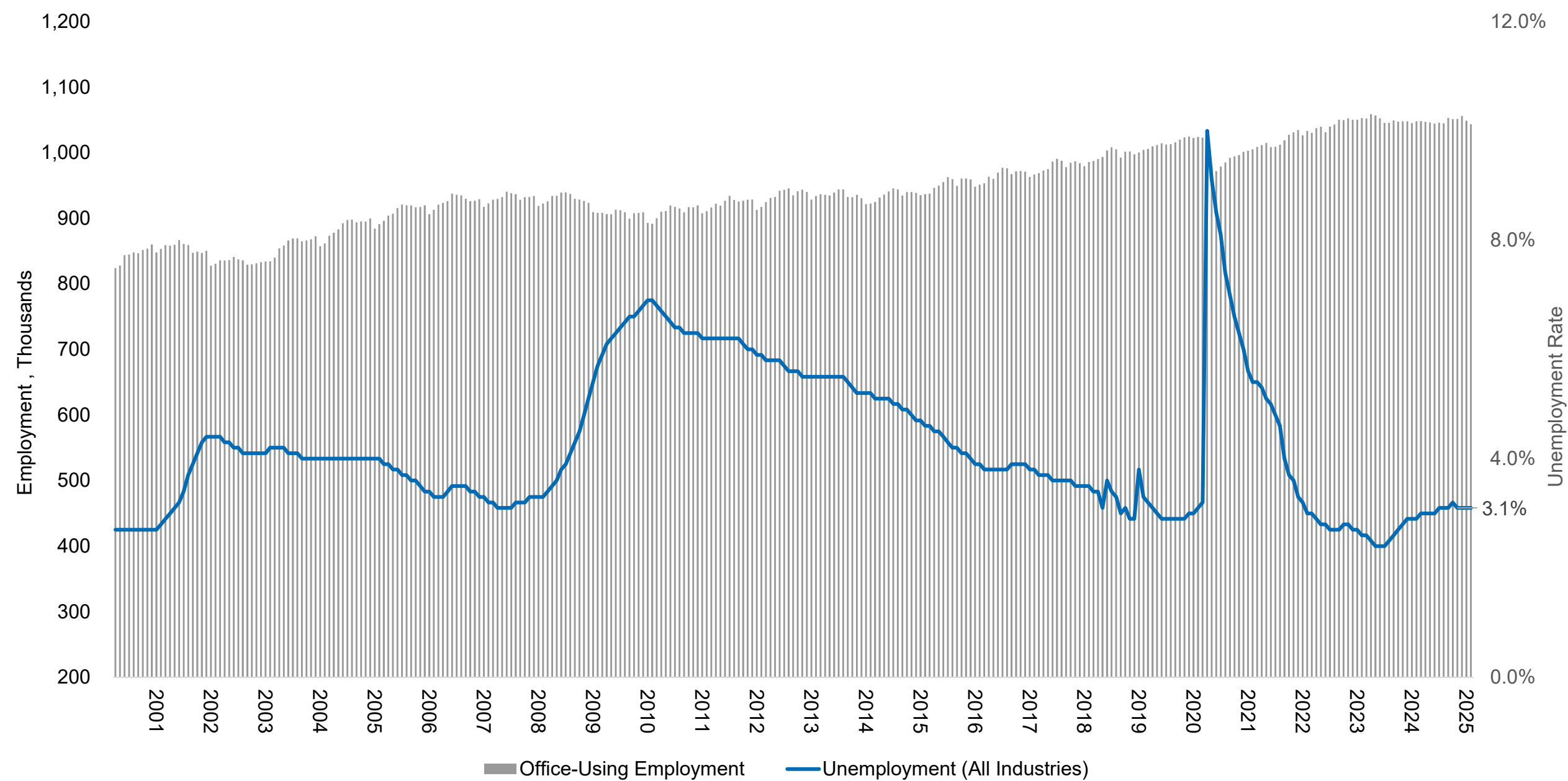


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.0% higher than five years ago—just before the pandemic—and 7.4% higher than the pandemic-induced employment trough in June of 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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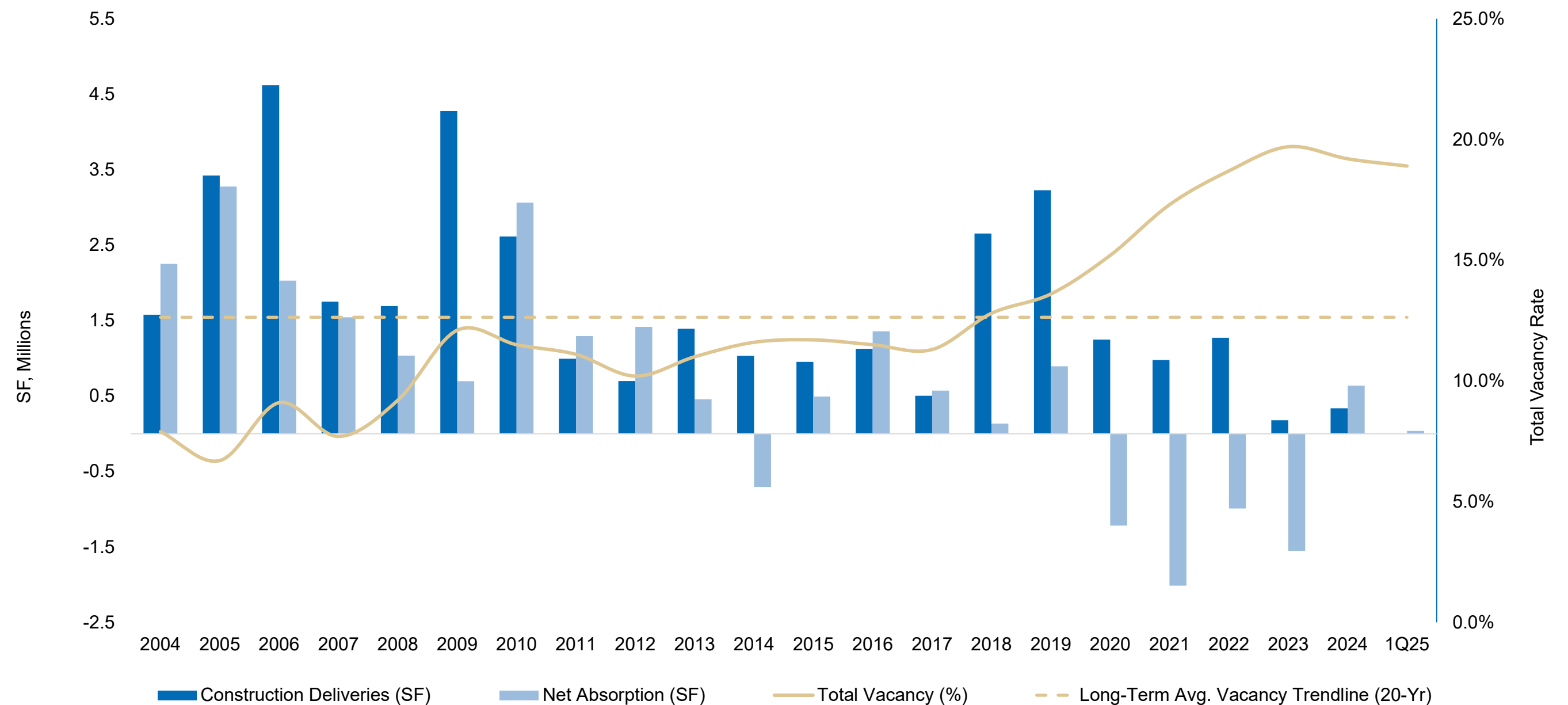
Leasing Market Fundamentals



Vacancy Continues to Decline with Office Conversions

The District of Columbia’s vacancy rate ended the first quarter of 2025 at 18.9%, a decline of 30-bps quarter-over-quarter and 80-bps year-over-year. While absorption was modest during the quarter, the continued trend of converting obsolete office space to other uses resulted in 2.8 MSF being removed from competitive office inventory as of the start of the year. This trend—coupled with a continued lack of speculative office construction—will help to mitigate rising vacancy in a period of limited demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

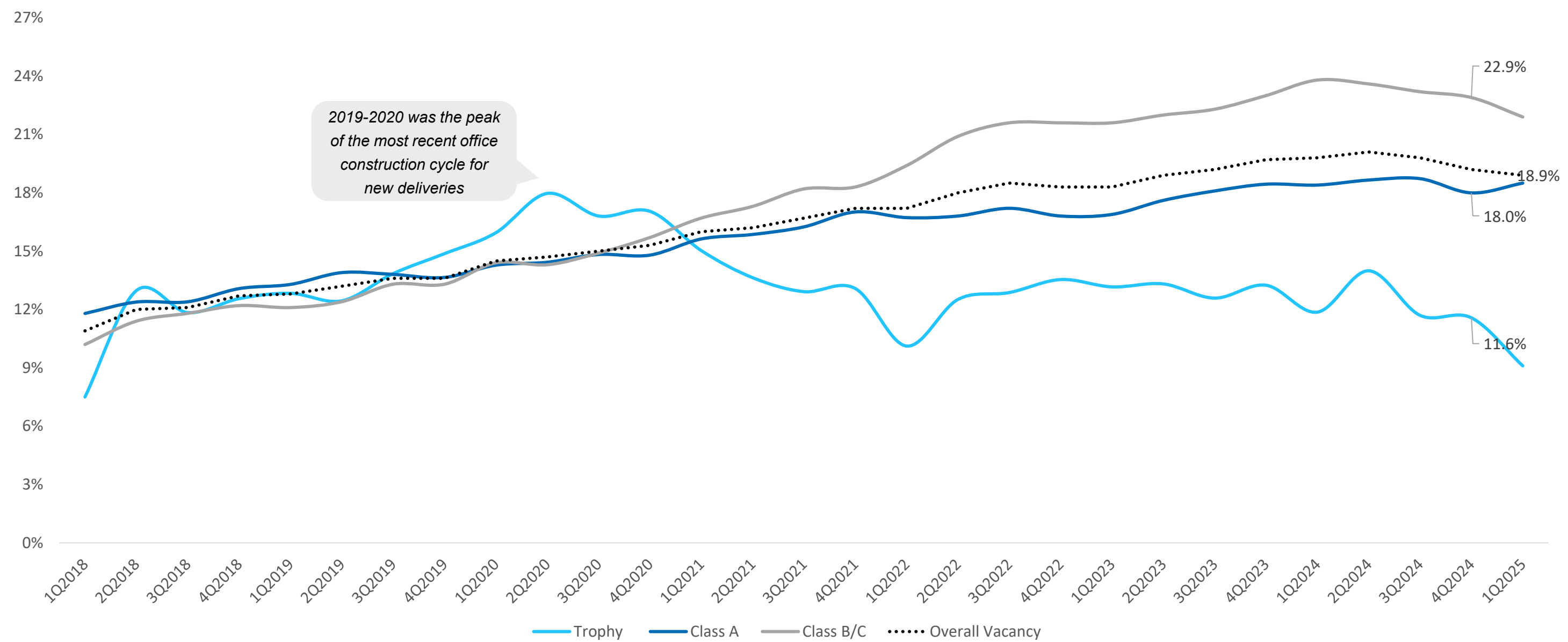


Source: Newmark Research

D.C. Trophy Office Continues to Outperform Lower-Quality Product

Trophy product saw a peak in vacancies at 18.0% in Q2 2020, which was partly attributable to new deliveries in lease-up. Since that point, trophy product has outperformed all other asset classes by tightening 890 bps to end the first quarter of 2025 at 9.1%. In contrast, Class A and Class B/C product saw vacancy expansions during the same period. Class B/C vacancy declined in the first quarter, largely attributable to the conversion of obsolete office inventory to other uses.

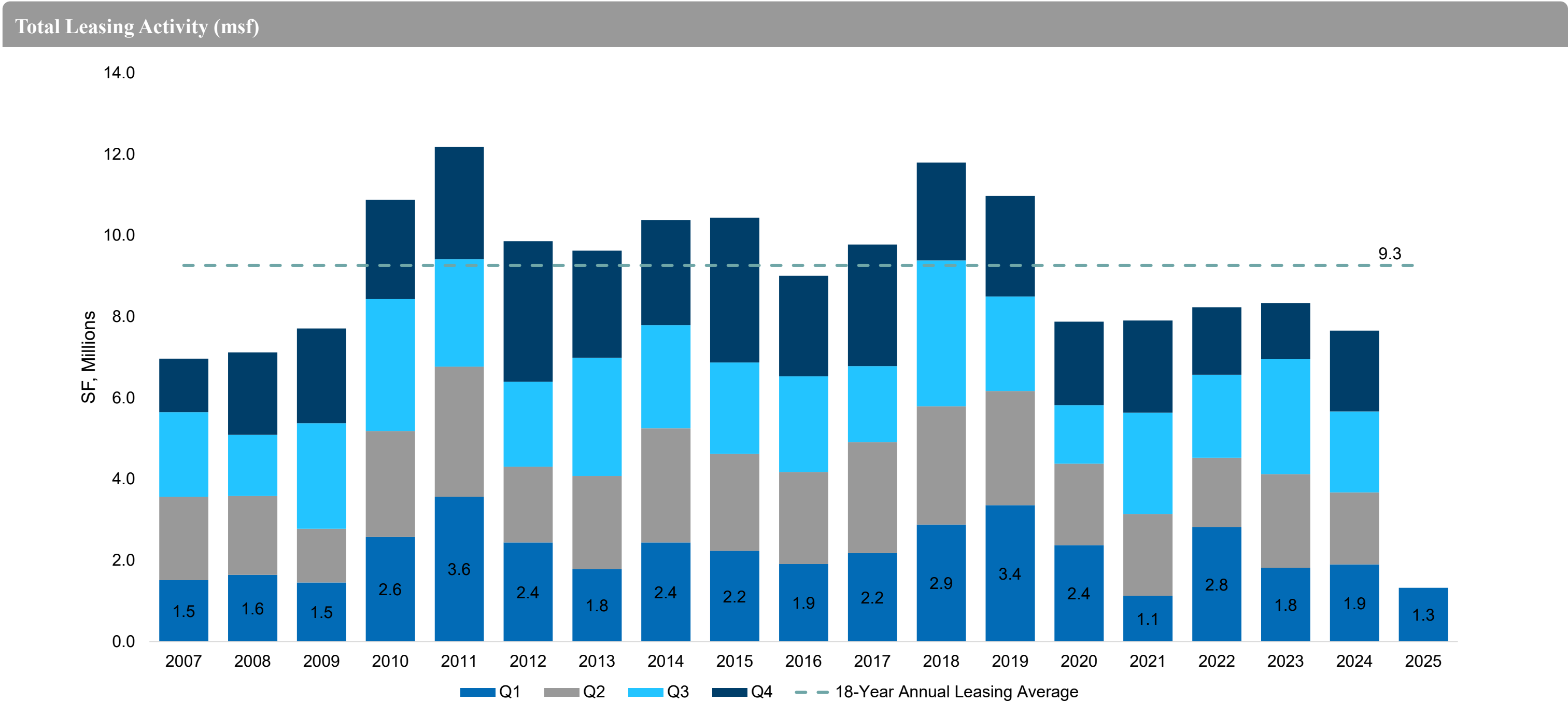
Washington, D.C. Office Total Vacancy: Trophy Vs. Class A Vs. Class B/C



Source: Newmark Research

Leasing Activity Steady with Major Leases Signed by Law Firms, Corporate Tenants

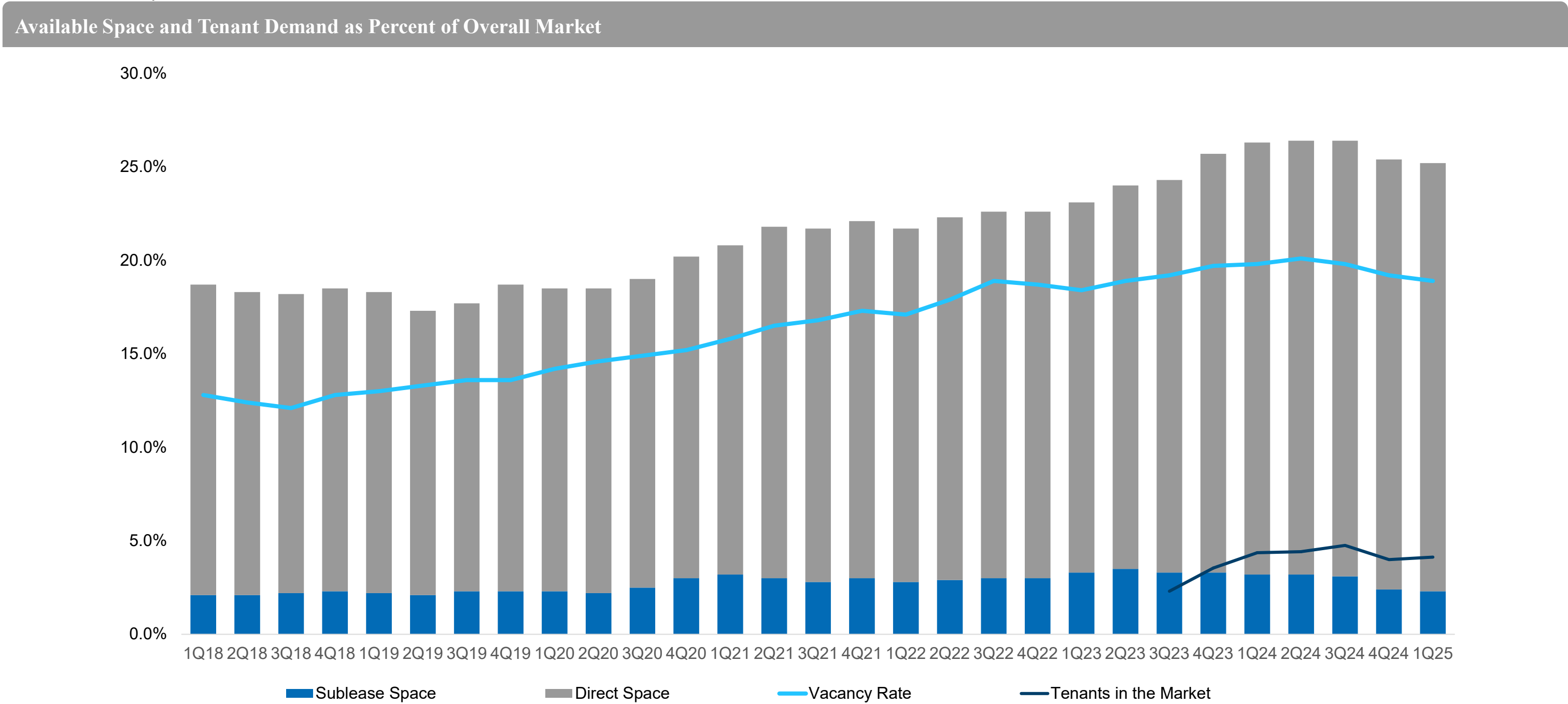
During the first quarter of 2025, the market saw 1.3 MSF of leasing activity. While this is slightly down from the same period a year ago, the number is likely to increase once all first-quarter leases are tallied. Larger leases are driven by the limited availability of trophy class product with major law firms and other large companies competing for the best space. Smaller spec suites are the primary target for new leases under 10,000 SF.



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

Sublease Availability Returns to Pre-Pandemic Levels

With the removal of some obsolete office space, overall availability rates have come down slightly from their peak at the beginning of 2024 but remain elevated. The first-quarter-2025 availability rate of 22.9% is down 10 bps from the year prior but is well above the five-year average of 19.9%. The availability rate for sublease space was 2.3% as of the first quarter, down a significant 90 bps from the year prior, and well below the five-year average of 2.9% This decline in sublease availability illustrates the increasing demand for ready-to-go functional office space in the District.

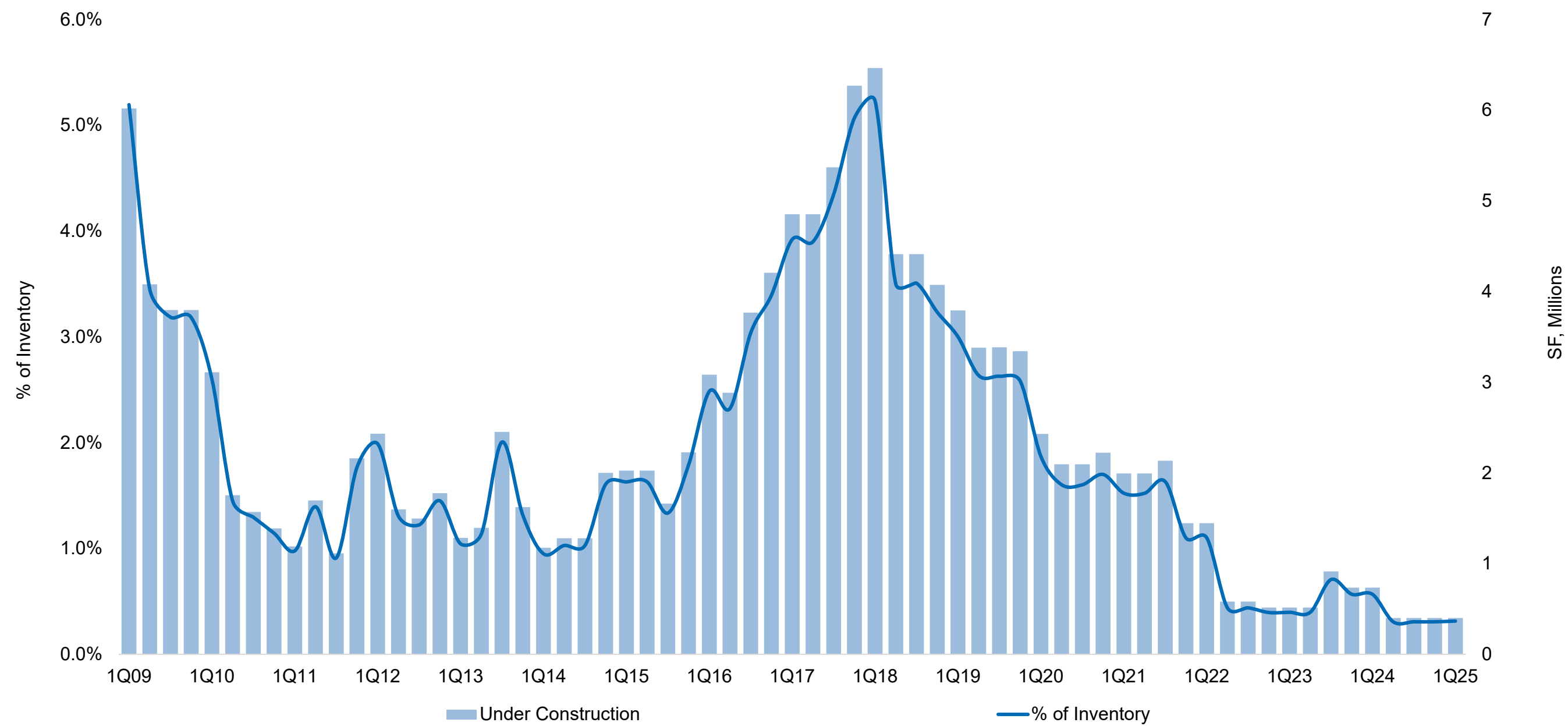


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The District of Columbia’s development pipeline remains historically low, with no deliveries over the past three quarters. There is one project under construction totaling 400,000 SF. This development, 600 Fifth NW, is a 400,000-square-foot office building located in the East End. It has an expected delivery of Q1 2026 and is 54% preleased. It was also announced this quarter that BXP will begin demolition and site work for the future 700 12th development, which will deliver 320,000 SF of trophy space in late 2028.

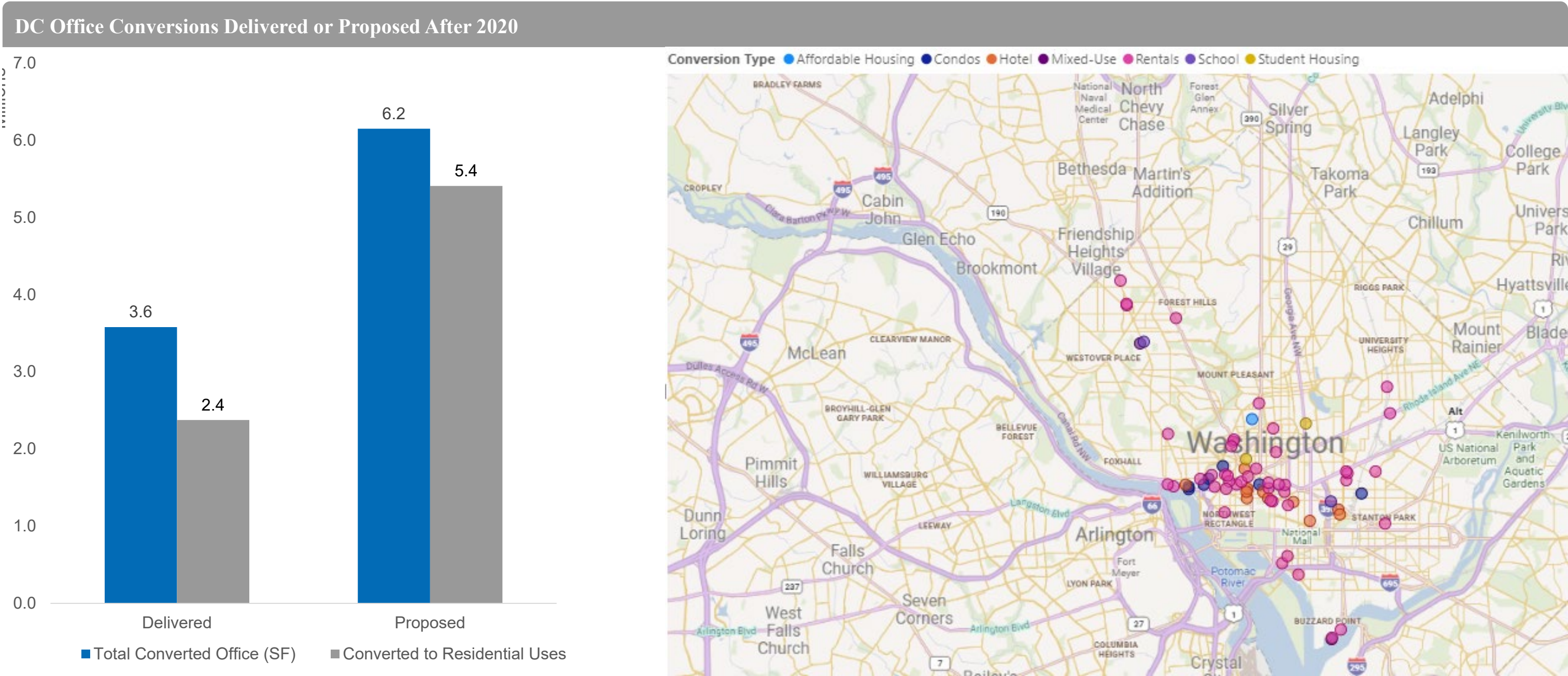
Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

Office Conversions Have Started to Deliver in the District, with More on the Way

Since 2020, nearly 9.7 million SF of office space in the District has been converted—or is in the process of being converted—to other uses. Approximately 2.4 MSF of the 3.6 MSF of office space that has been removed in the District of Columbia since 2020 was converted to residential uses. Looking forward, approximately 6.2 MSF of office space is proposed to be converted into other uses, with 5.4 MSF of that space slated for residential use.

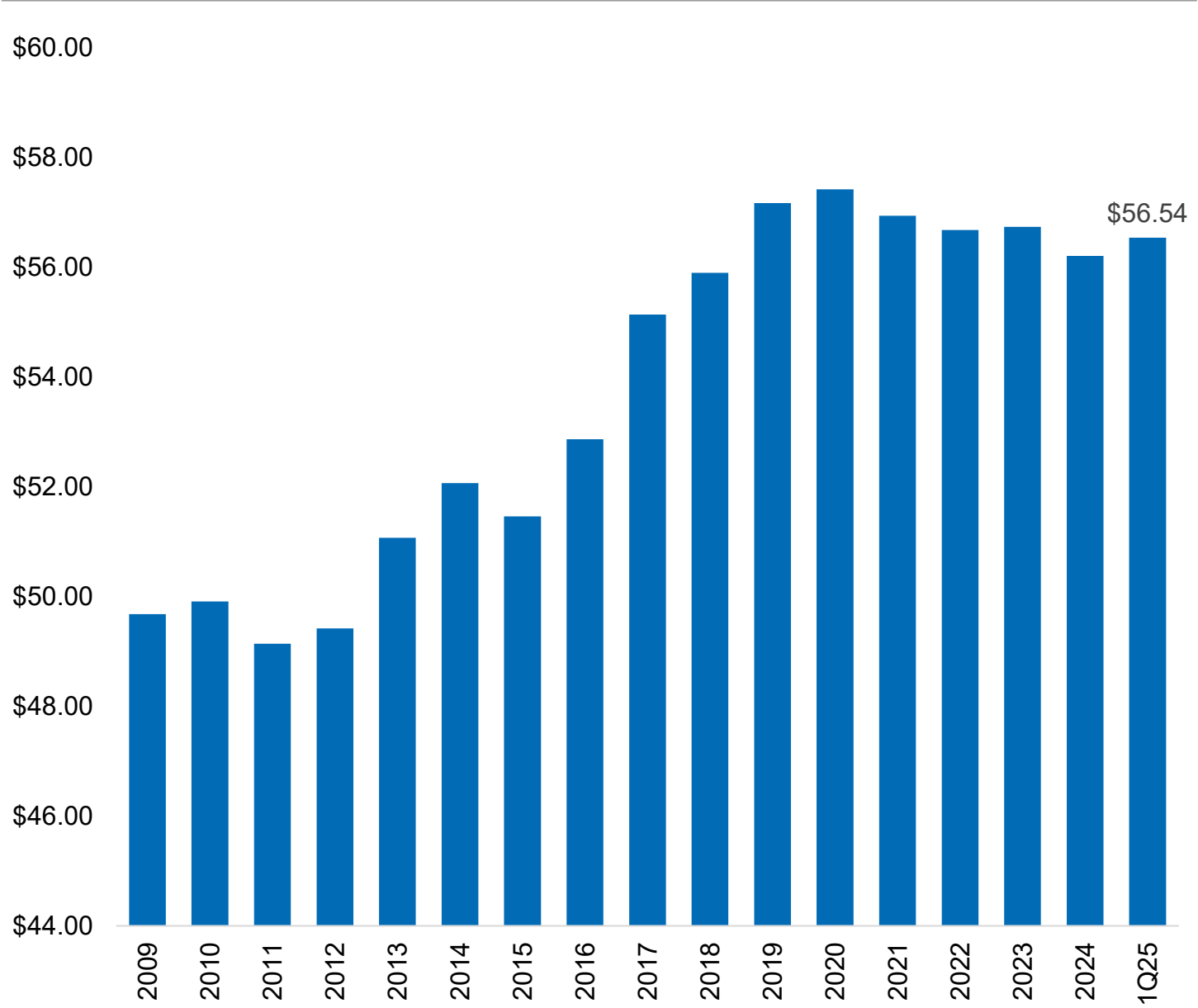


Source: Newmark Research

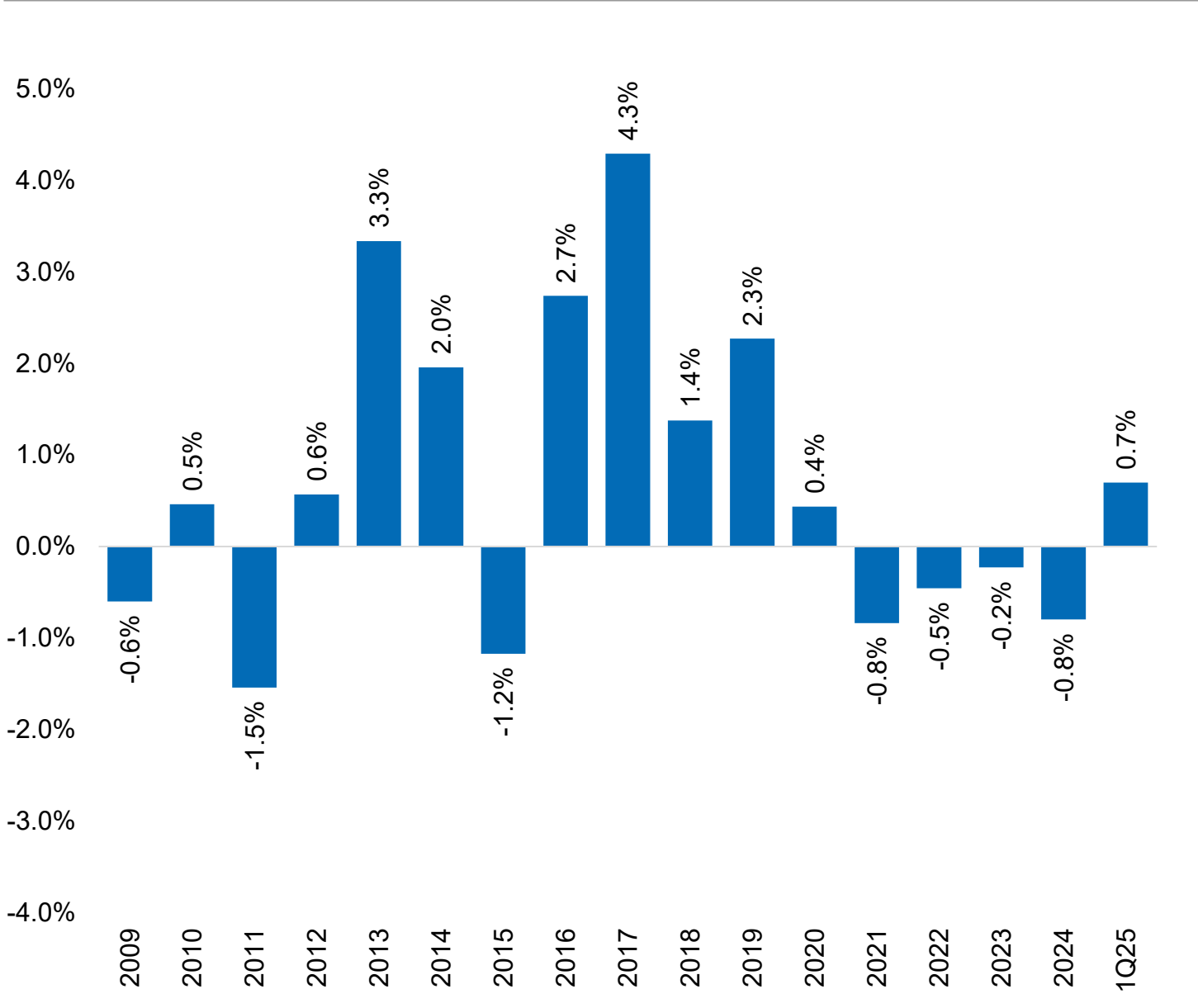
District of Columbia Asking Rents Experiencing Modest Decline

After decreasing year-over-year since 2021, asking rental rates rebounded during the first quarter of 2025, with 0.7% annual growth. Still, rents remain 1.5% lower than their peak 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. However, the conversion of obsolete office space to other uses helps to raise average rents to a level more reflective of competitive product.

Office Average Asking Rent, \$/SF, FS



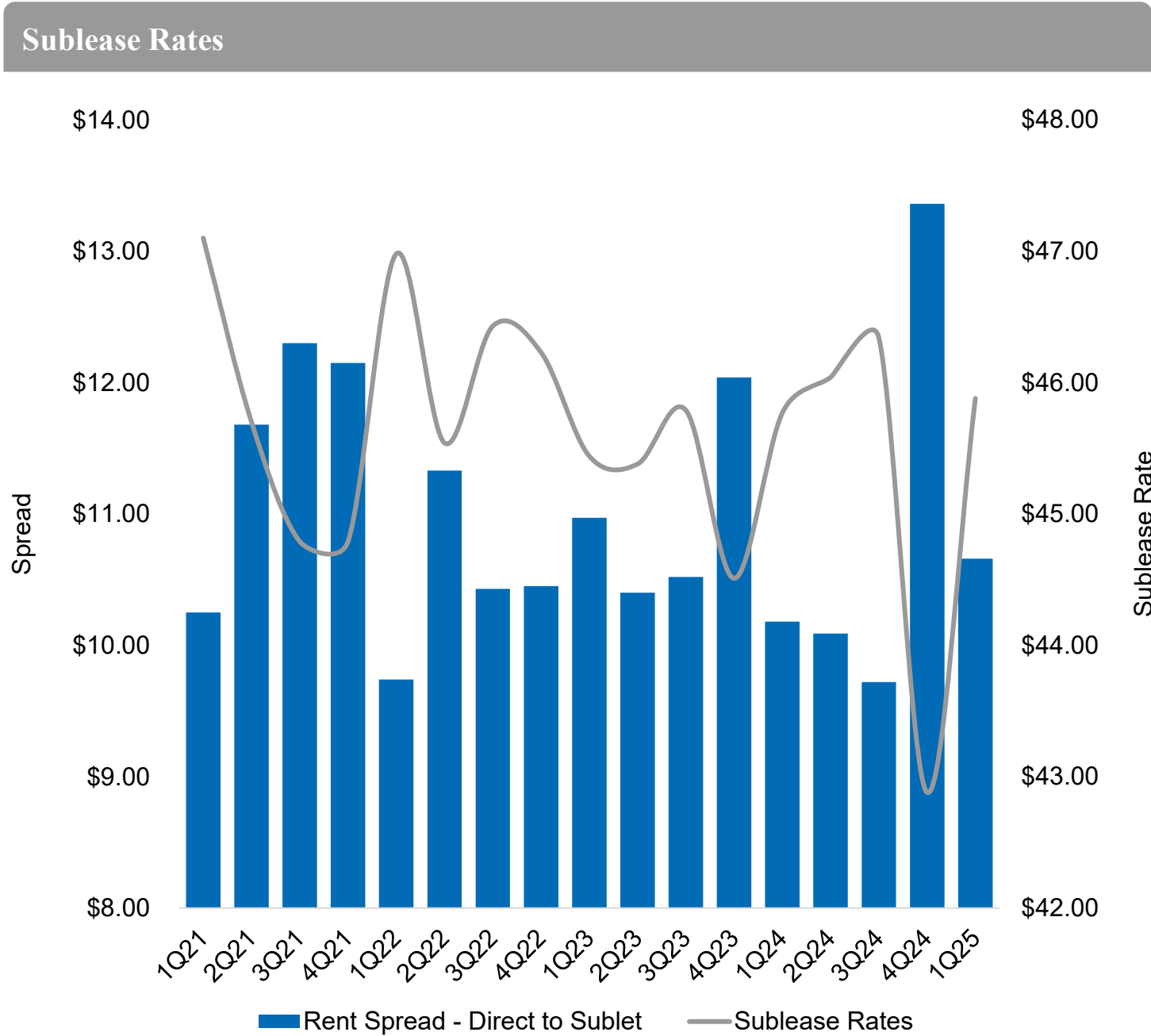
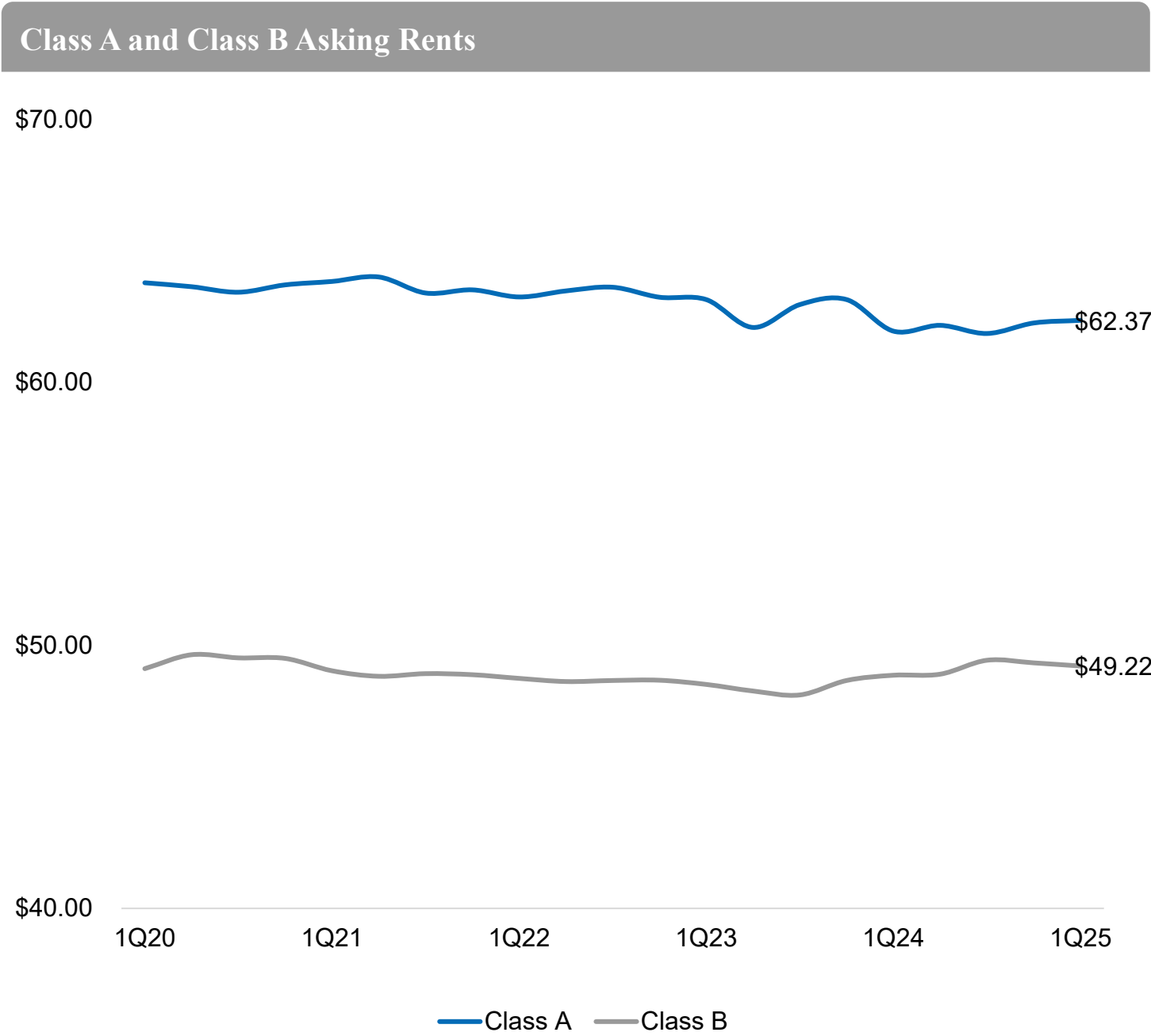
Year-over-Year Asking Rent Growth Rate



Source: Newmark Research

Spread Between Class A and Class B Asking Rents Increases

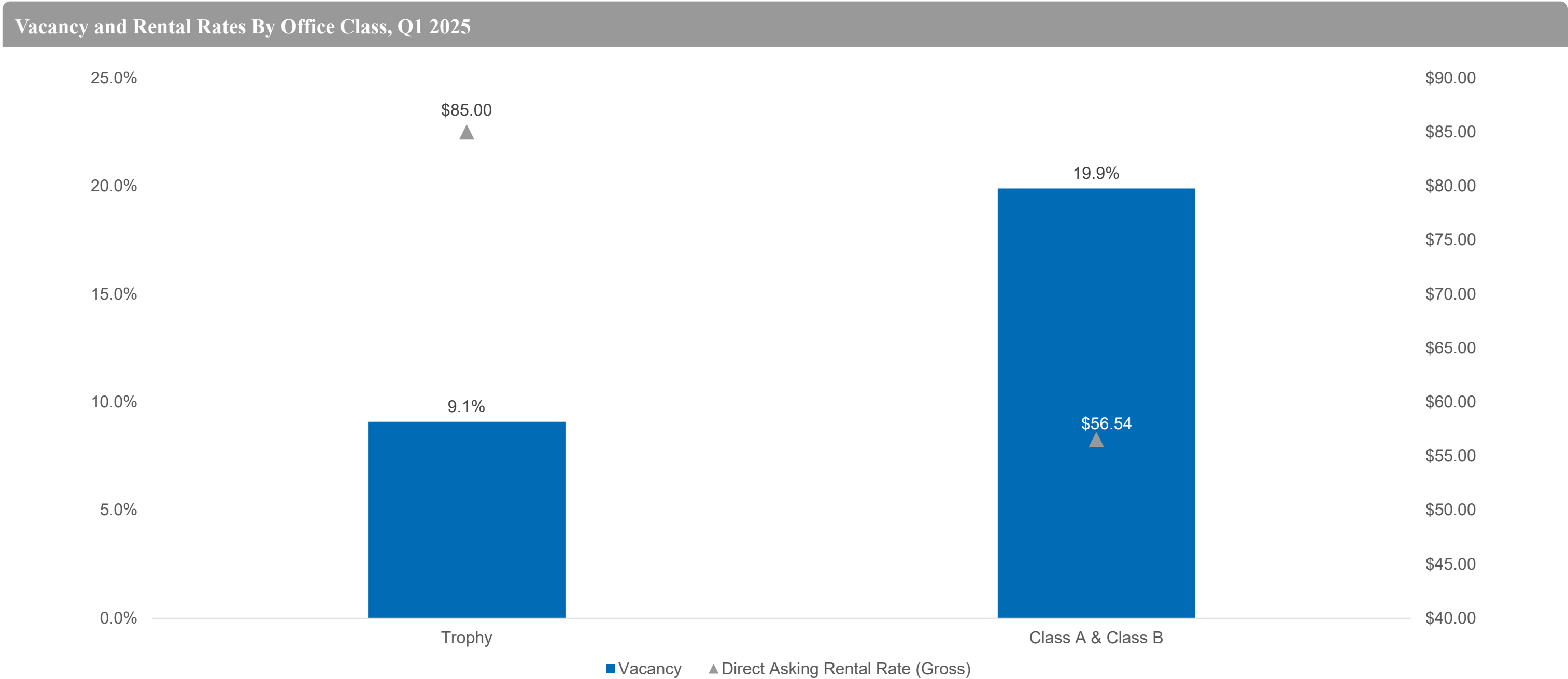
The slight increase in overall asking rents was spread evenly across Class A and Class B rents, with both classes seeing a 0.7% annual increase. Over the past five years, both Class A and Class B rents have remained relatively flat. After spiking in the fourth quarter of 2024, the rent spread between direct and sublet deals declined to \$10.66—closer to its long-term average.



Source: Newmark Research

District of Columbia Trophy Office Outperforms Class A & B

The District of Columbia, like many other office markets, is experiencing a bifurcation of performance across classes. “Flight to quality” is a pervasive trend and is especially observed among trophy assets. The limited inventory of trophy space will lead to further decreases in available space and increases in asking rents among that asset class.



Source: Newmark Research.

Law Firms Buoy D.C.’s Office Demand From the Private Sector

Law firms currently dominate D.C.’s private sector user demand, with two Am Law 100 firms topping the list of largest office leases in the first quarter. Multiple local and federal government tenants have also renewed large leases. A notable transaction was completed by AT&T Wireless, which sold its DC headquarters to Reign Capital as part of an \$850-million, 74-property sale-leaseback portfolio deal that included central office facilities across the U.S.

Notable 1Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
McDermott Will & Emery	700 11th Street NW	East End	New Lease	150,000
Freshfields	1100 15th St NW	East End	New Lease	117,000
AT&T Wireless	725 13th Street NW	East End	Sale Leaseback	96,000
Federal Retirement Thrift Investment Board	77 K Street NE	Capitol Hill	Lease Renewal	92,000
Medstar Health	1133 21st Street NW	CBD	Lease Renewal	92,000
Page Southerland Page	2101 L St NW	CBD	New Lease	67,710

Source: Newmark Research

1Q25

Submarket Stats



District of Columbia Market Overview

Market Statistics By Class									
	Total Inventory (SF)	Overall Vacancy	Overall Availability	1Q 2025 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Washington D.C.	127,272,427	18.9%	25.3%	37,698	37,698	0	0	399,617	\$56.54
Class A	81,006,348	17.1%	23.7%	-250,475	-250,475	0	0	399,617	\$62.37
Class B	42,260,034	22.3%	29.1%	260,615	260,615	0	0	0	\$49.22
Class C	4,006,045	17.3%	16.3%	27,558	27,558	0	0	0	\$41.61
Submarket Statistics – All Classes									
	Total Inventory (SF)	Overall Vacancy	Overall Availability	1Q 2025 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Capitol Hill	5,396,058	20.2%	28.0%	44,009	44,009	0	0	0	\$63.34
Capitol Riverfront	4,978,946	14.8%	20.6%	4,842	4,842	0	0	0	\$56.80
CBD	39,561,451	21.6%	28.0%	-387,595	-387,595	0	0	0	\$56.74
East End	41,765,082	19.7%	29.0%	479,275	479,275	0	0	399,617	\$58.92
Georgetown	2,439,312	25.9%	34.6%	15,843	15,843	0	0	0	\$54.27
NoMa	11,717,348	12.6%	18.3%	-108,292	-108,292	0	0	0	\$49.83
Southwest	12,519,993	14.6%	14.2%	-25,692	-25,692	0	0	0	\$49.49
Uptown	4,970,673	16.4%	16.6%	-4,339	-4,339	0	0	0	\$44.24
West End	3,923,564	16.6%	20.8%	19,647	19,647	0	0	0	\$57.94

Source: Newmark Research

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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