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Washington Metro Office Market Overview

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. February's 3.1% unemployment rate remains lower than the region's ten-year historical average of 3.8%, remaining flat quarter-over-quarter and expanding 20 bps year-over-year. Furthermore, the Washington DC metro's unemployment rate is 100 bps lower than the national rate.
- Year-over-year, office-related job gains were most pronounced in Education & Health, posting a gain of 3.7%. Furthermore, the Government and Financial Activities sectors also experienced notable job gains, increasing 1.6% and 0.9% year-over-year, respectively. The Information and Business & Professional sectors experienced job losses over the past year, however, helping to account for continued limited demand for office space.
- While some office-using sectors experienced a decline in employment over the past year, jobs in the office-using sectors remain at a level that is 2.0% higher than five years ago—just prior to the pandemic—and 7.4% higher than the pandemic-induced employment trough in June of 2020.

Major Transactions

- Office investment sales continue to lag in pricing PSF as well as total transaction volume. However, owner-user sales, flex facilities, and data centers are propping up a lot of demand in Washington D.C. capital markets. Even distressed sales are often positive for market momentum. Many sites are often converted or repurposed, while new owners can often inject new capital into assets and pay the commission and concessions needed to secure tenants.
- The most notable deal of the quarter was the sale of 1401 H Street NW, a 371,903-square-foot, twelve-story office building located in the East End. Nuveen sold the property to Tourmaline Capital Partners for $118.09 M, or $317.52 PSF. Occupancy was 85% at the time of sale.

Leasing Market Fundamentals

- The Washington D.C. Metro region experienced positive net absorption of 320,298 SF during Q1 2025. The District, Northern Virginia, and Suburban Maryland all experienced positive net absorption to begin the year on a high note across all three markets.
- Overall vacancy ended Q1 2025 at 20.6%, tightening slightly quarter-over-quarter, however expanding 60 bps year-over-year. Availability also tightened, ending Q1 2025 at 24.6%, down 10 bps quarter-over-quarter, however, expanding 60 bps year-over-year.
- Major first-quarter transactions were spread throughout the metro, with three of the five largest deals occurring in the District. The remaining two deals occurred in Northern Virginia and Suburban Maryland.
- After five deliveries throughout 2024 totaling roughly 1.2 MSF, the market didn't see a delivery during Q1 2025. The development pipeline ended Q1 2025 with 950,000 SF under construction spread across a further five properties.

Outlook

- Some distressed assets are likely to return to their lenders at an increasing rate in 2025 as debt maturities come due. This will allow new owners to acquire these assets at a discount and inject new capital to perform renovations, offer concessions to tenants in the market, or convert the asset to its new highest and best use.
- The region faces major headwinds from the new administration, especially related to tariffs and the real estate and staffing cuts driven by DOGE. Several lease transactions and major 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.
- The most recent unemployment numbers do not yet show the impact of government staffing changes driven by DOGE. With a significant number of those jobs located in the metro area, it is likely the region will see a net decline in employment by the end of 2025.

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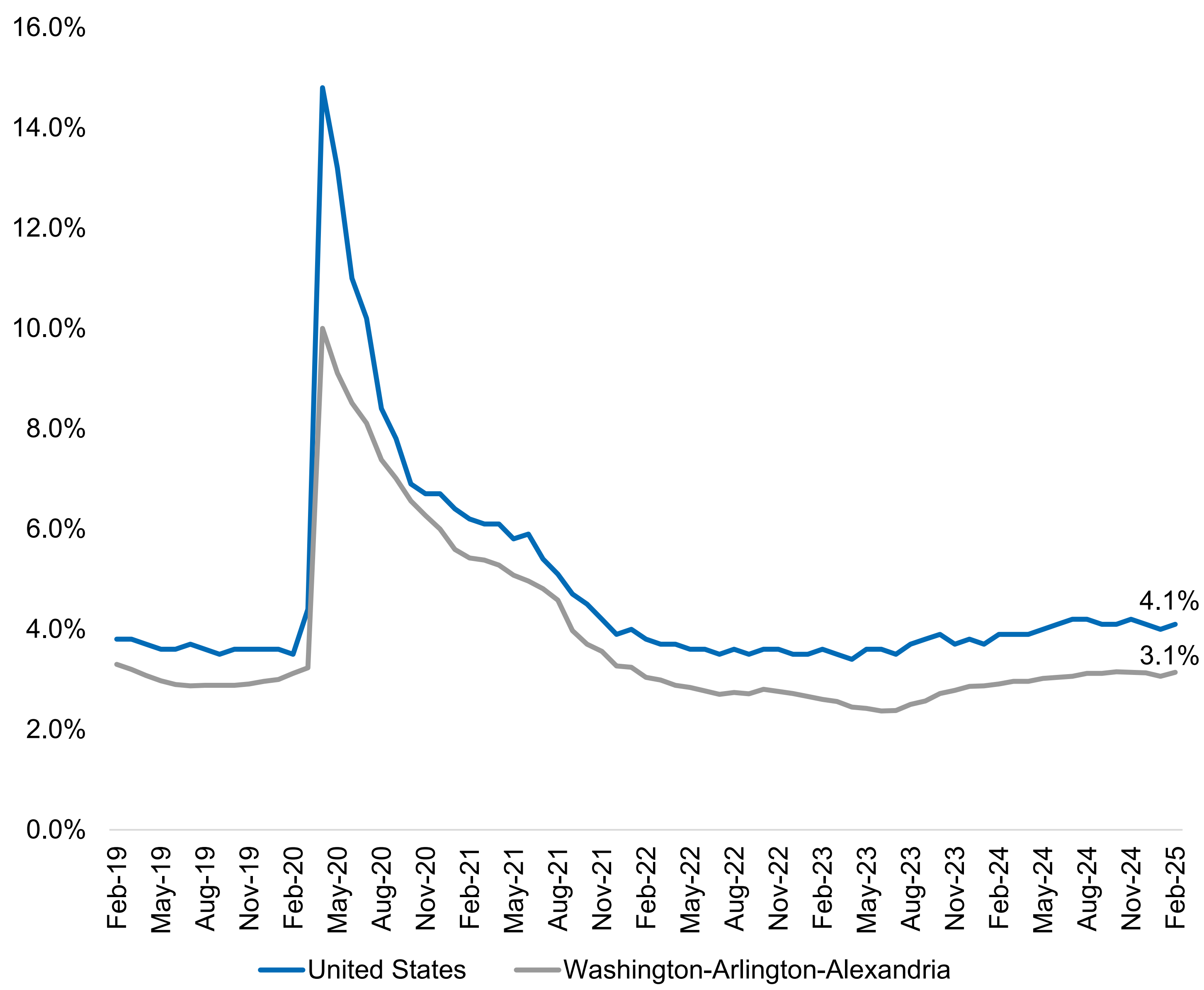
Economy

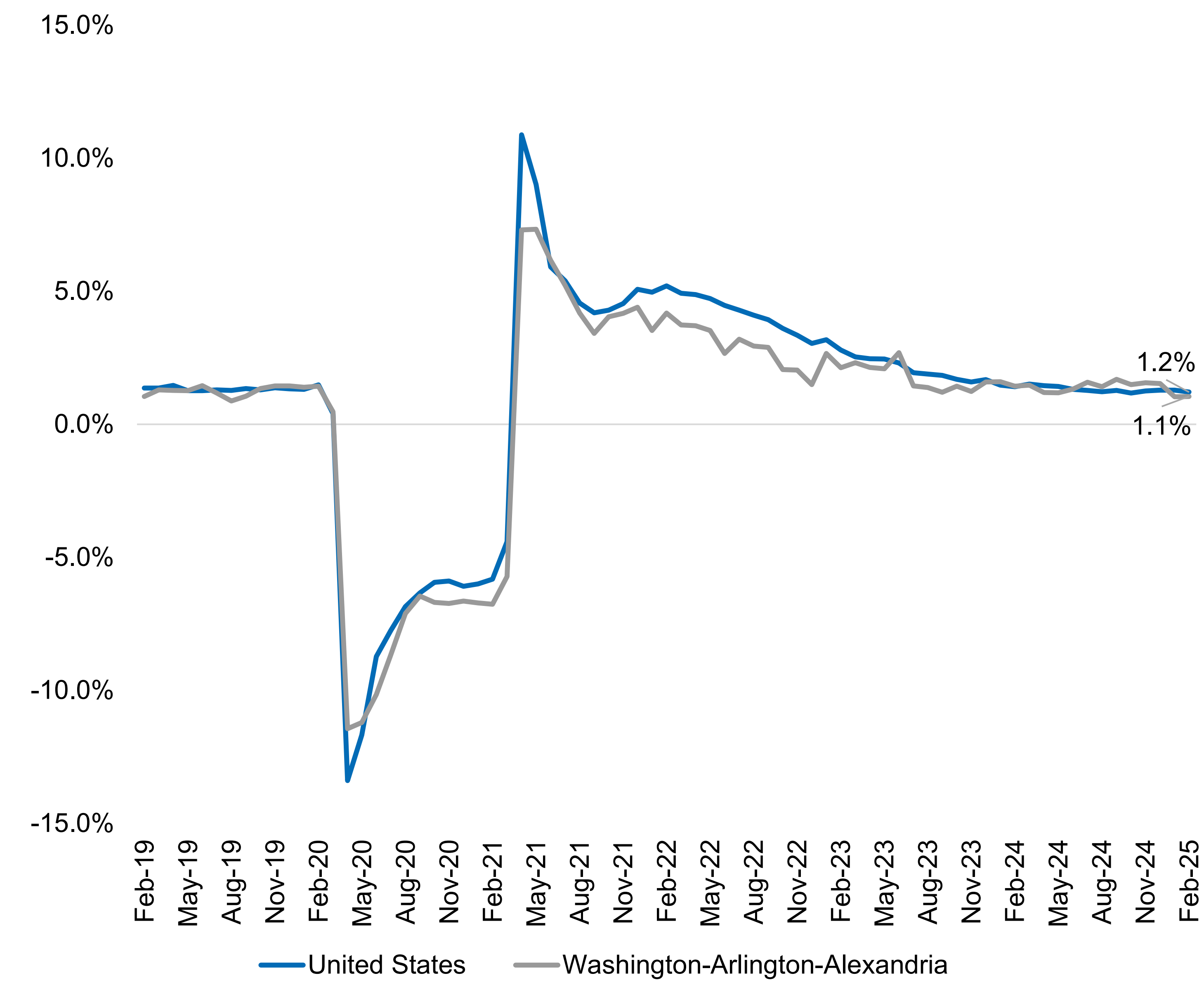
Metro Unemployment Rate Remains Tighter Than National Average

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.

Unemployment Rate, Seasonally Adjusted



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

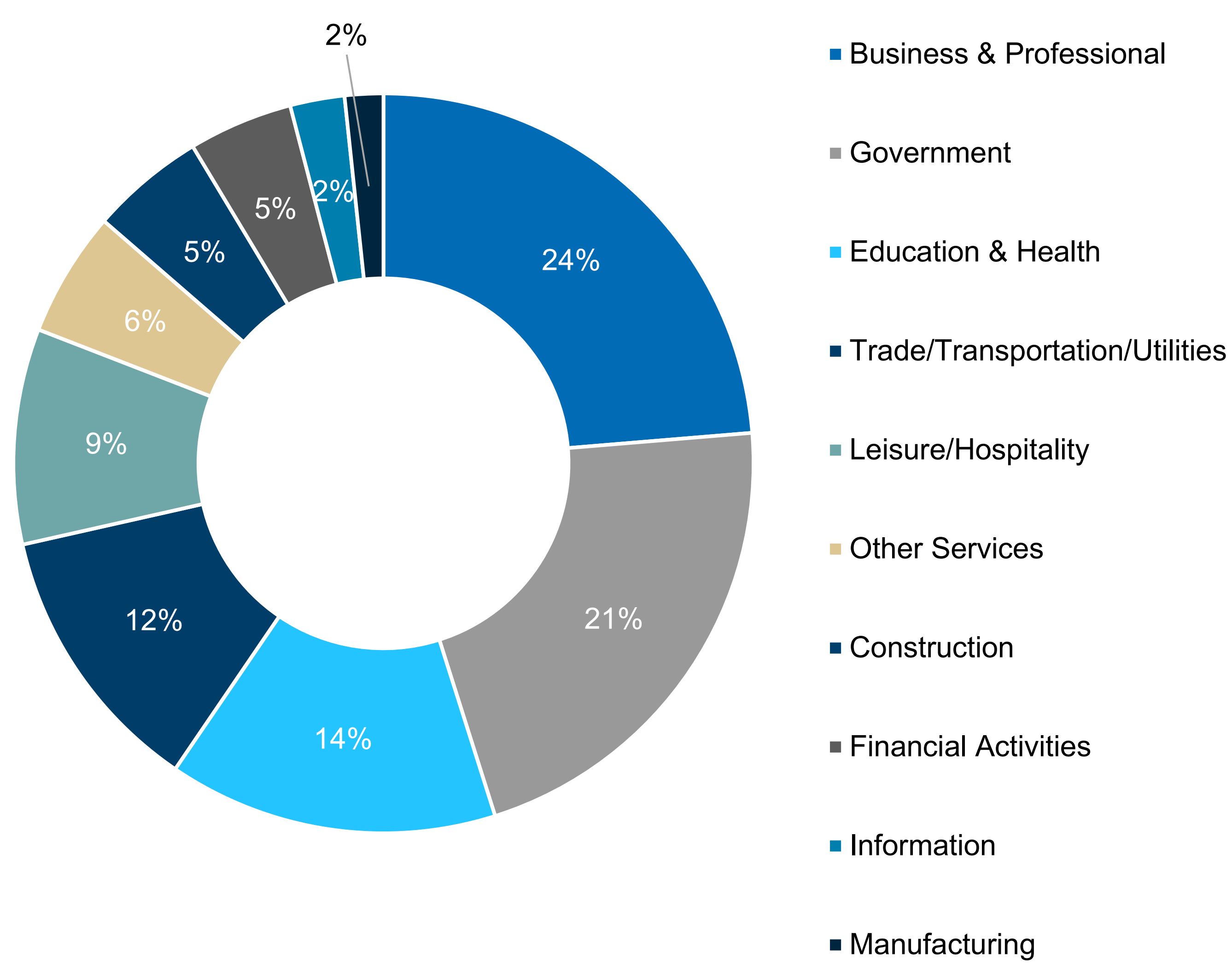


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

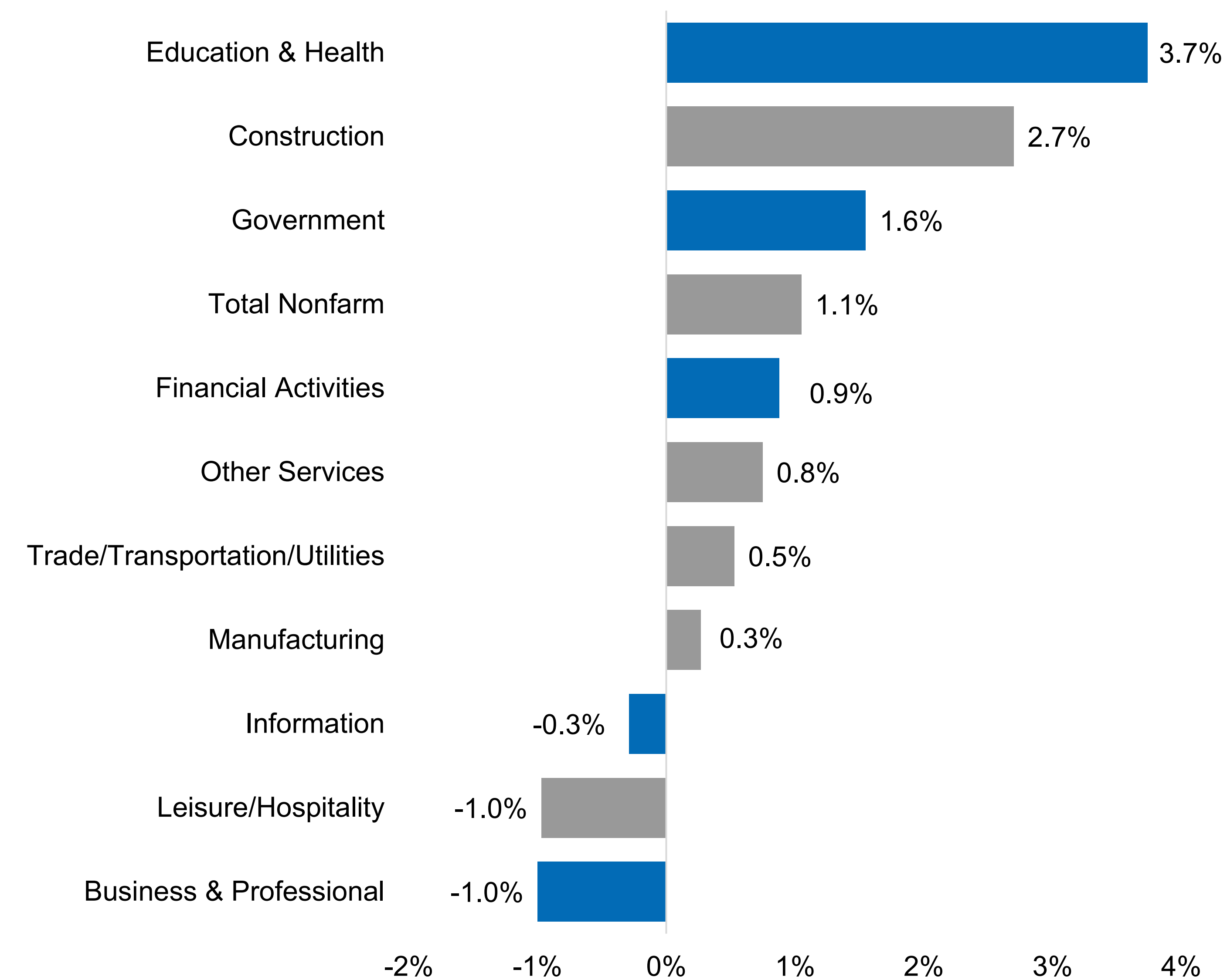
Job Growth Driven by Education & Health

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

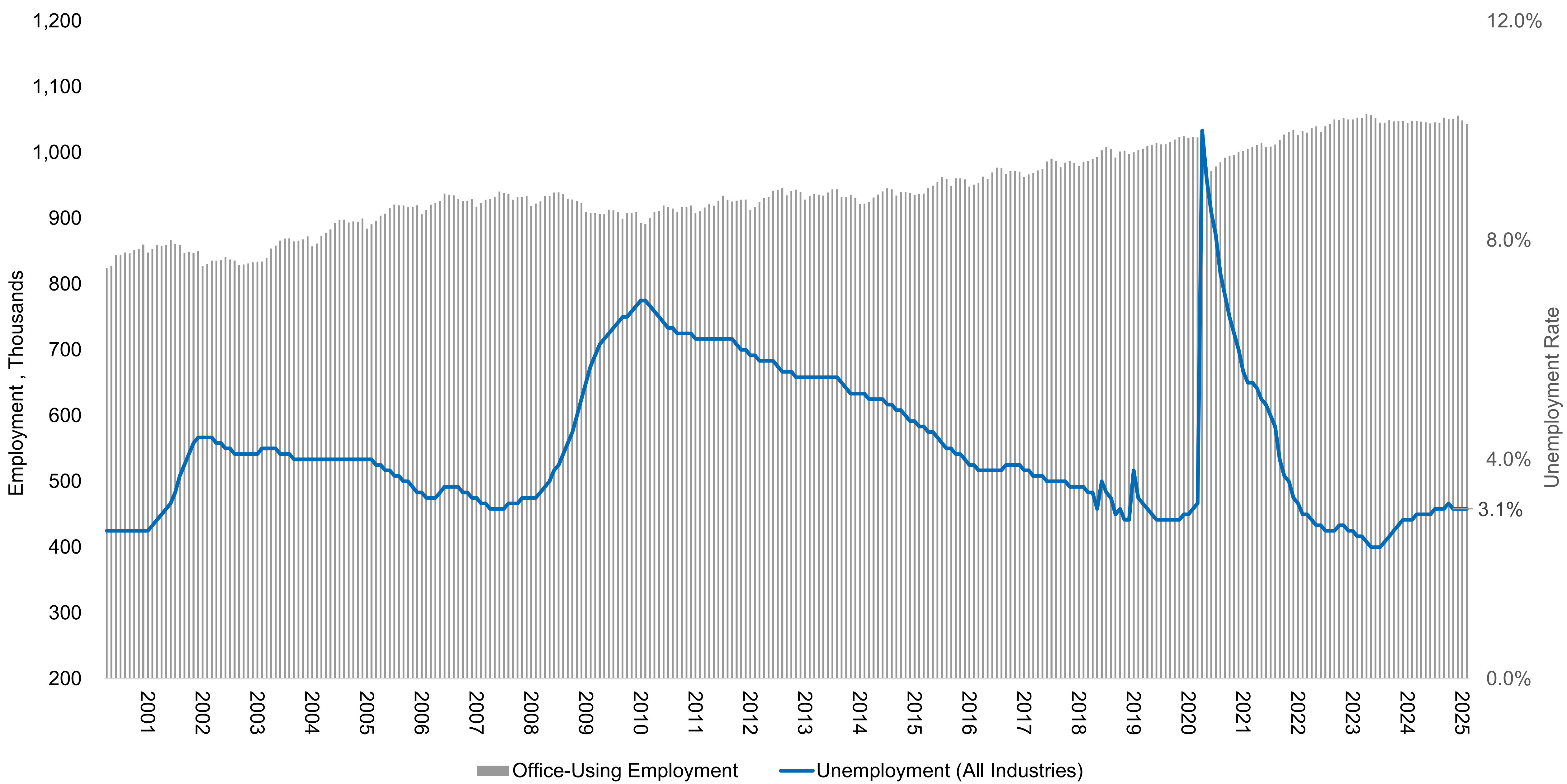


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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

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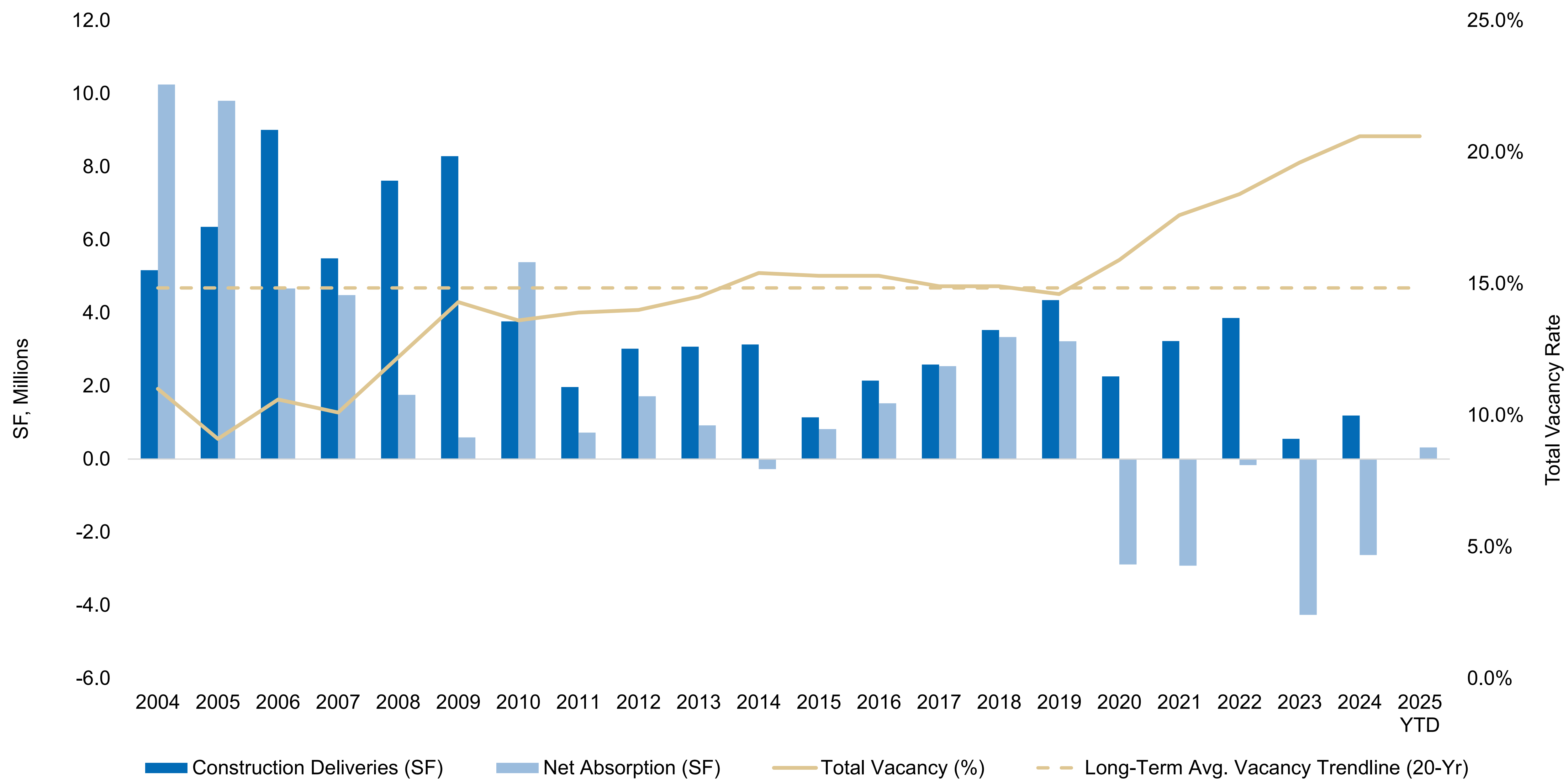
Leasing Market Fundamentals

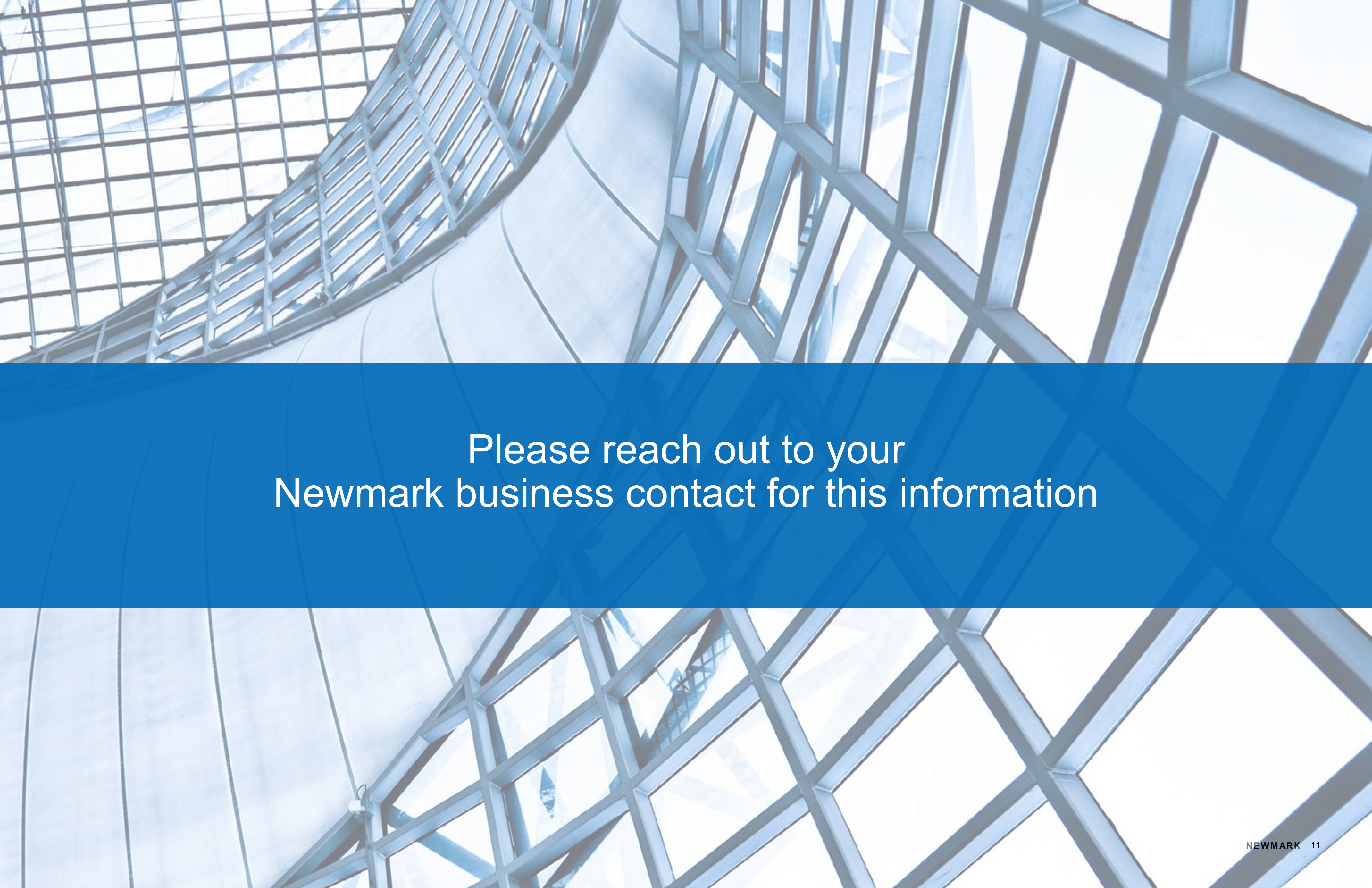
Market Experiences Positive Net Absorption to Begin 2025

The metro area vacancy rate ended Q1 2025 at 20.6%, tightening slightly quarter-over-quarter, although expanding 60 bps year-over-year. This slight tightening in vacancy was due to the market experiencing 320,000 SF of positive net absorption during the quarter. This positive net absorption was spread throughout the region, as the District, Northern Virginia, and Suburban Maryland all experienced positive net absorption during the quarter. The market continues to see a slowdown in development, as it did not experience any deliveries during Q1 2025. This slowdown in office deliveries and lack of new speculative office construction will continue to be advantageous in decreasing vacancy across the market.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research



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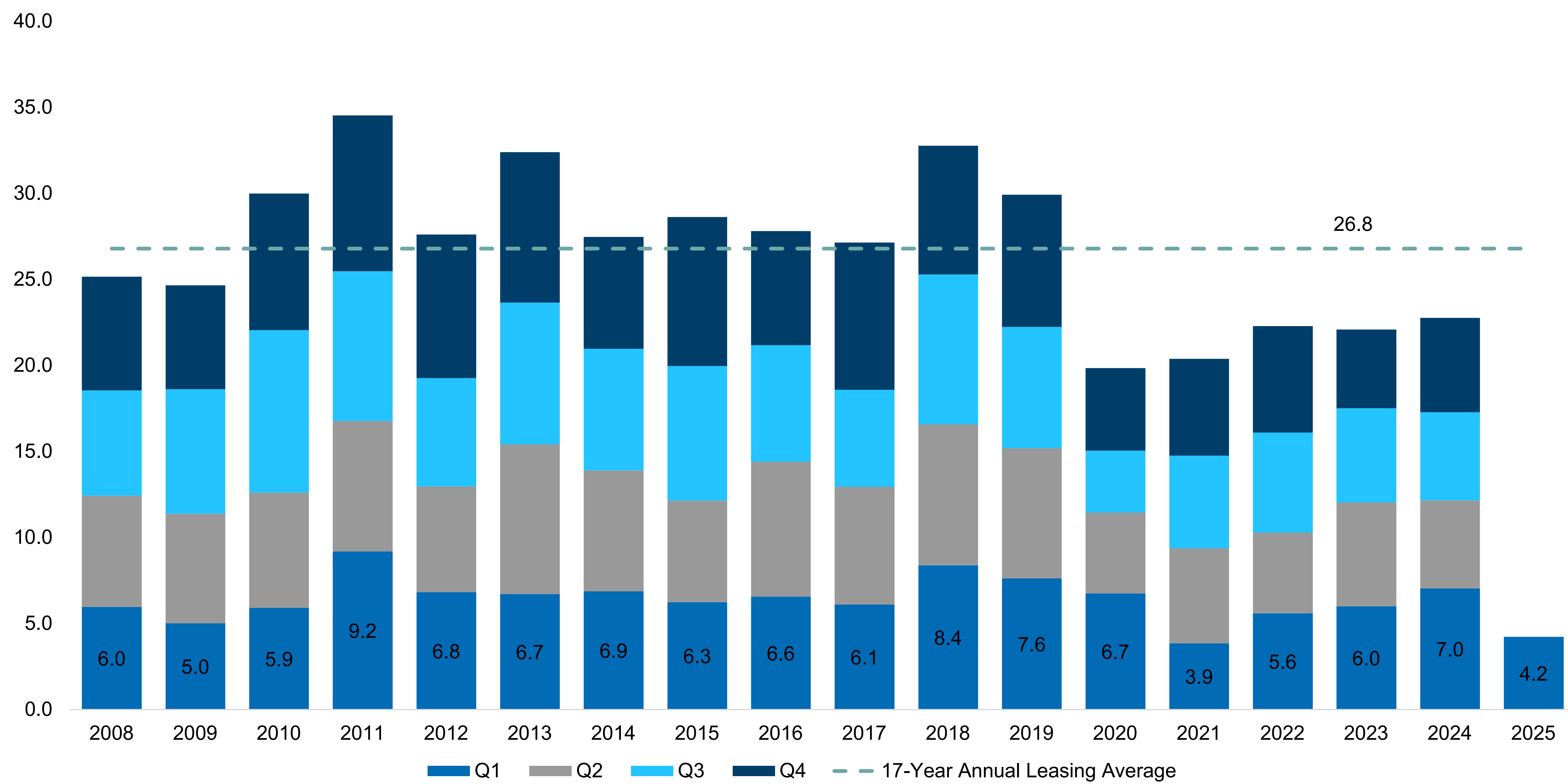
Leasing Volumes Slow to Begin 2025

Leasing activity has been consistent, albeit slow, since 2020, with the market seeing between approximately 20 MSF to 23 MSF of annual leasing activity since that point. The market experienced some optimism during 2024, seeing 22.8 MSF of leasing activity, which was the most since 2019. Despite this, that level of leasing activity is still much lower than the historical average of 26.8 MSF. The market continued this low level of leasing activity during Q1 2025, seeing only 4.2 MSF of activity, much less than the first-quarter average of 6.4 MSF.

Total Leasing Activity (msf)

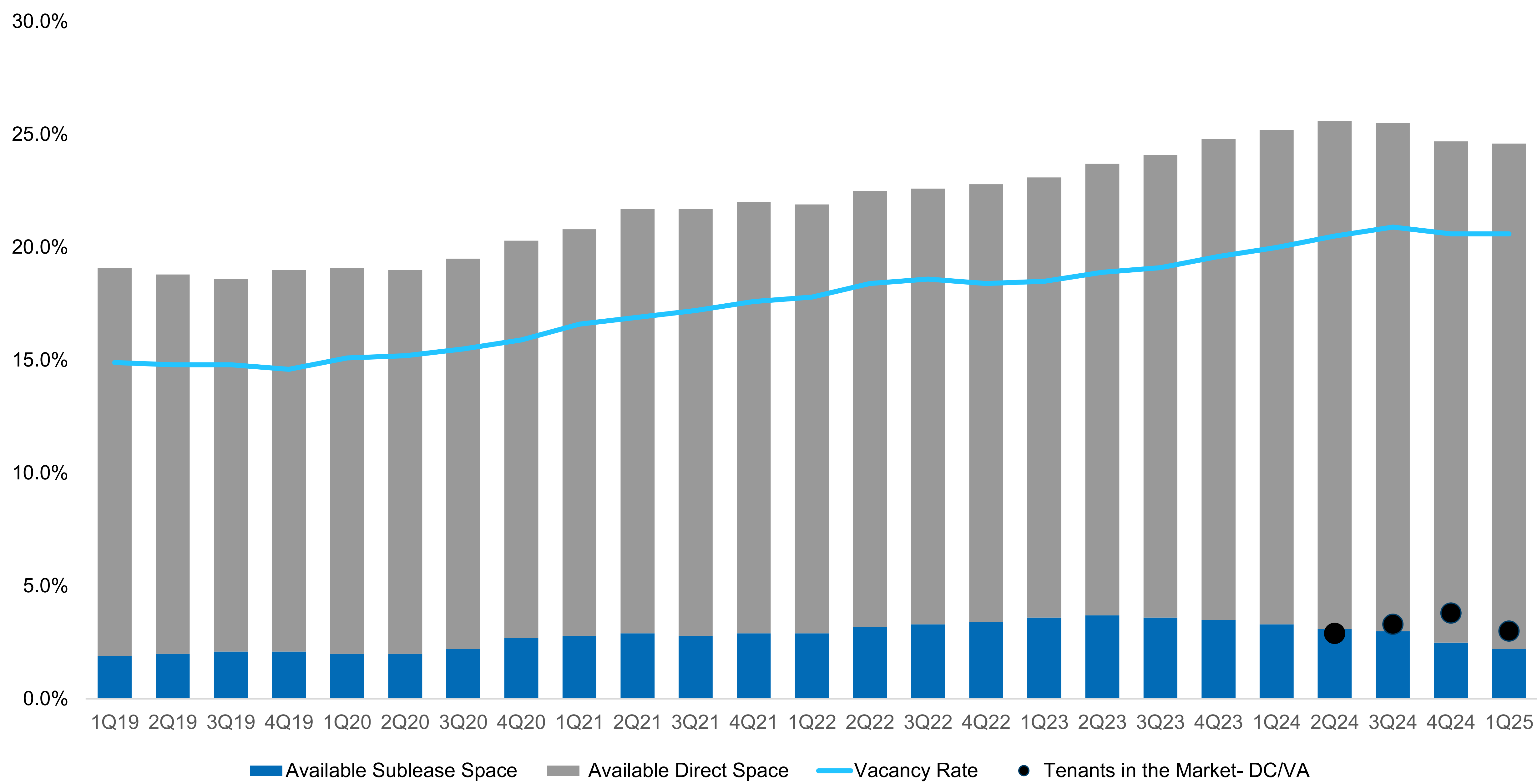


Source: Newmark Research, CoStar

Availability and Vacancy Remain Relatively Flat While Tenant Demand Drops

Available office space ended Q1 2025 at 24.6%, a 10 bps decrease quarter-over-quarter. Over the past six years, the direct availability rate has averaged 19.2% while the sublease availability rate has averaged 2.8%. The Q1 2025 availability rates of 22.4% for direct space and 2.2% for sublease space show that available direct space has been added to the market while available sublet space has been removed. Overall availability is likely to expand throughout the market in the near term as tenant demand decreases across the market.

Available Space and Tenant Demand as Percent of Overall Market

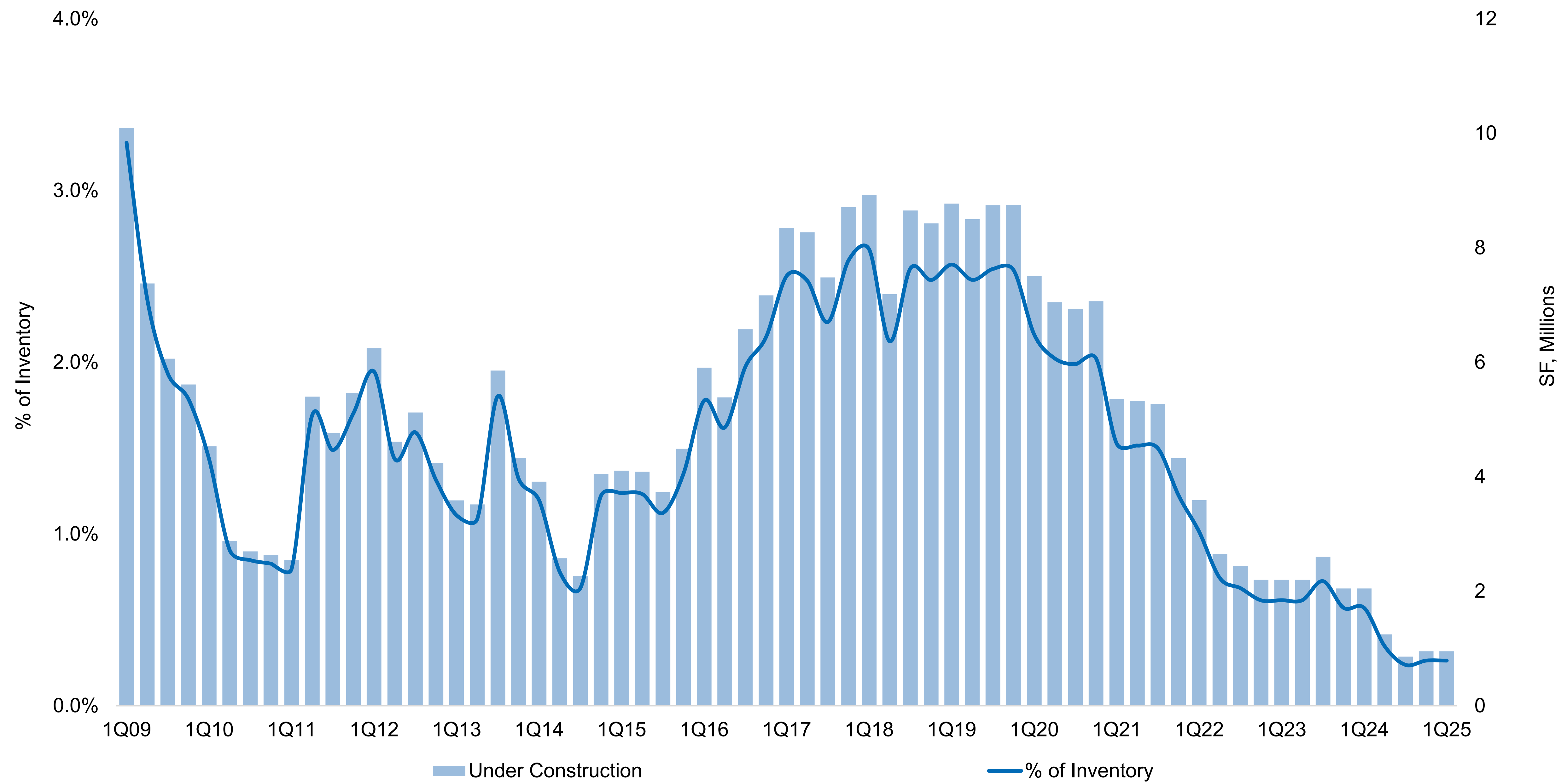


Source: Newmark Research

Deliveries Slow as Office Construction Pipeline Remains Limited

The Washington Metro area development pipeline remains historically low. There were no deliveries in Q1 2025, and only 5 office properties totaling 950,000 SF under construction, well below the historical average of 18 properties totaling over 5 MSF under construction.

Office Under Construction and % of Inventory

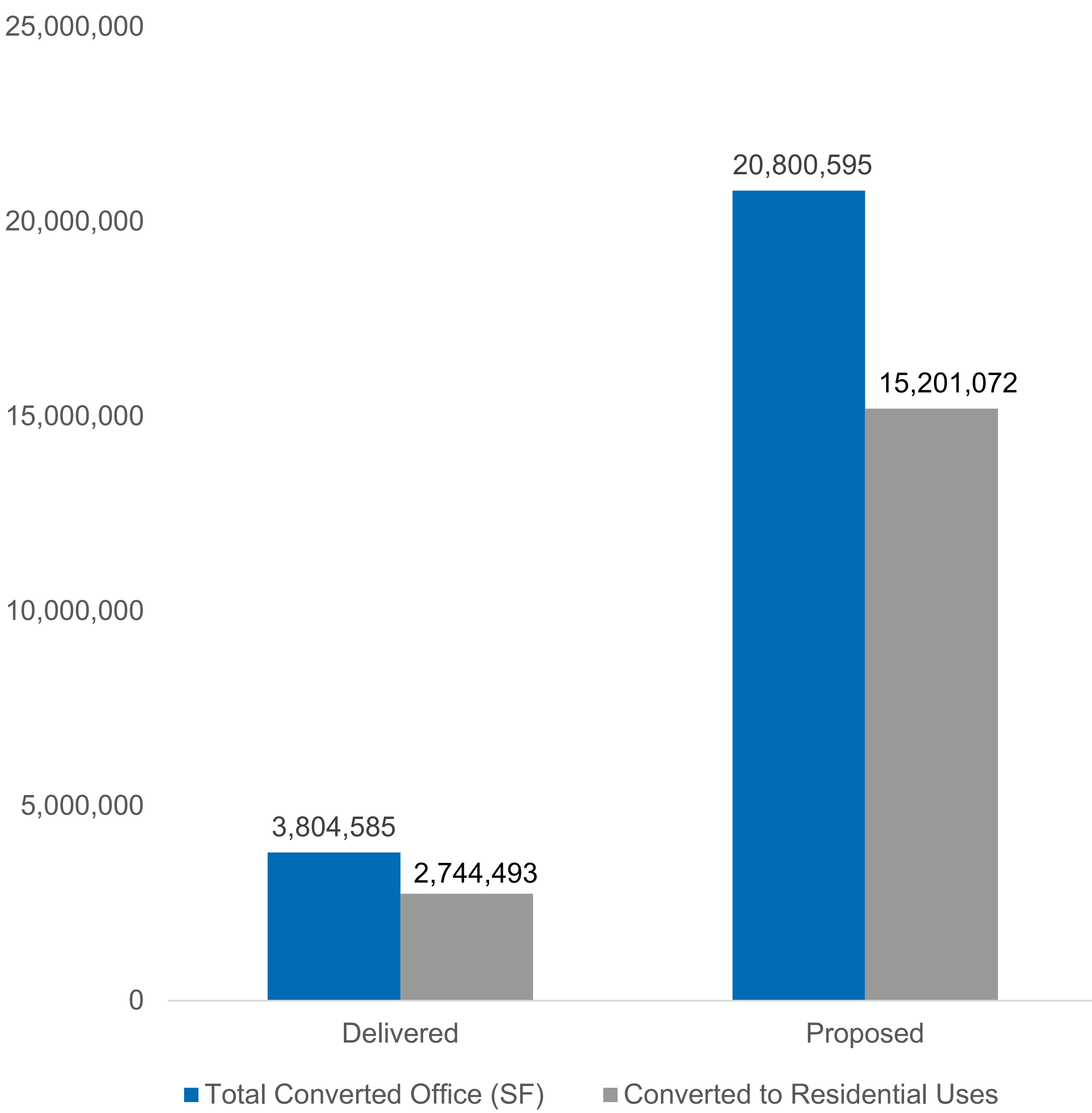


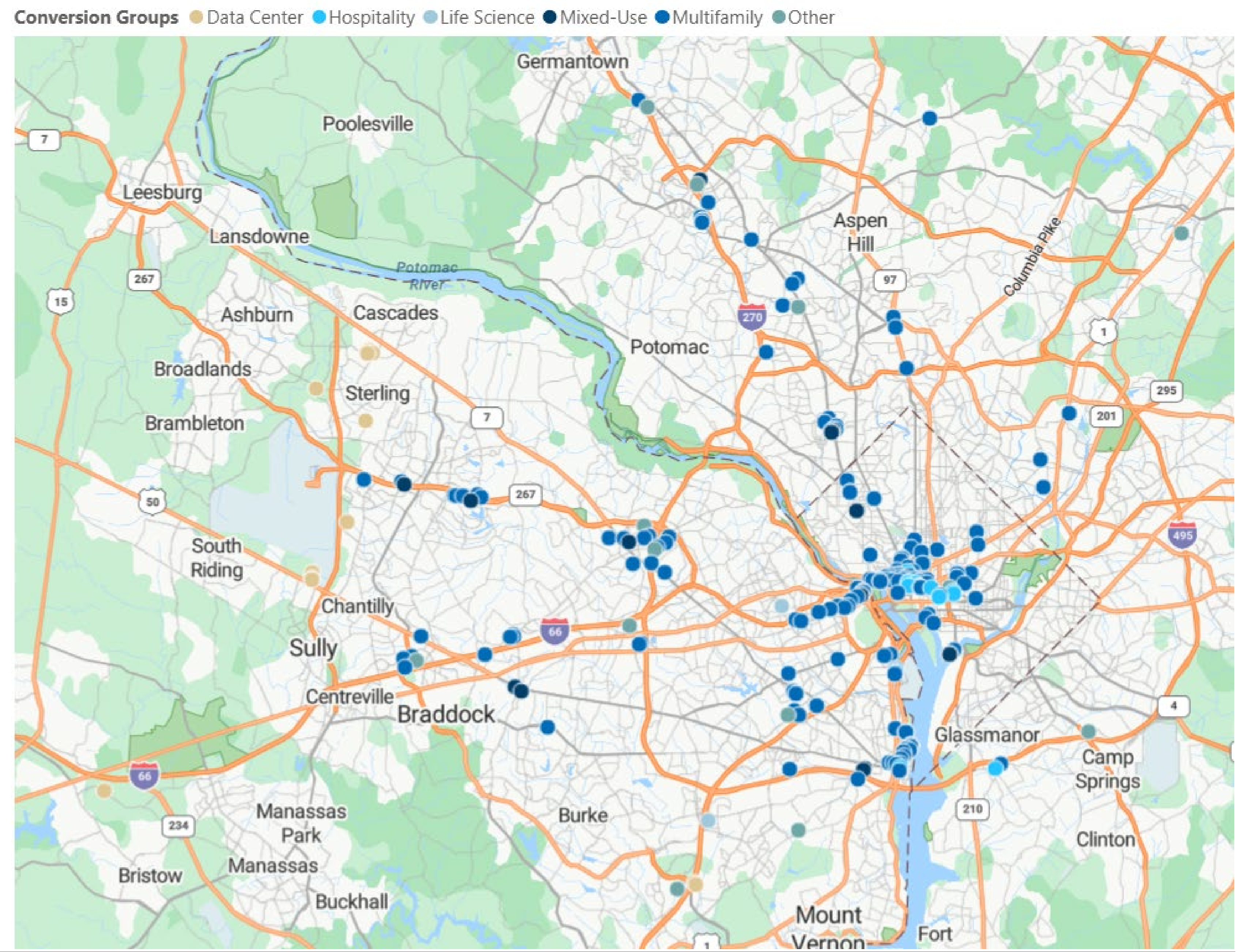
Source: Newmark Research, CoStar

Office Conversions Are Delivering Throughout the Metro, With More on the Way

Since 2020, 3.8 MSF of office space has been converted to other uses, with an additional 20.8 MSF of office space proposed to convert. Historically, 2.7 MSF of the 3.8 MSF (72.1%) of office space that has been removed throughout the metro was converted into residential uses. Looking forward, approximately 15.2 MSF of the 20.8 MSF (73.1%) is proposed to be converted into residential uses.

DC Metro Office Conversions Delivered or Proposed After 2020



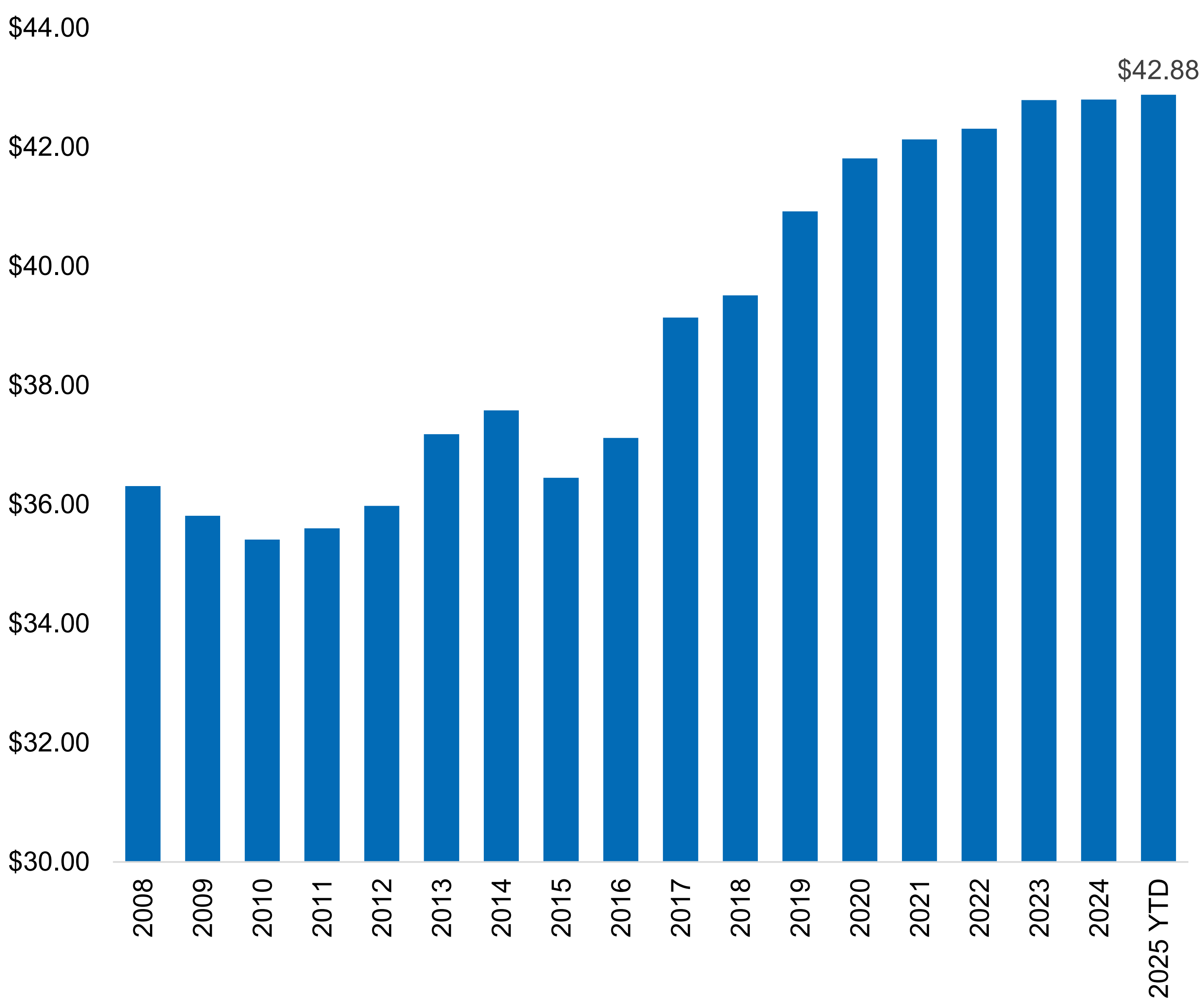


Source: Newmark Research.

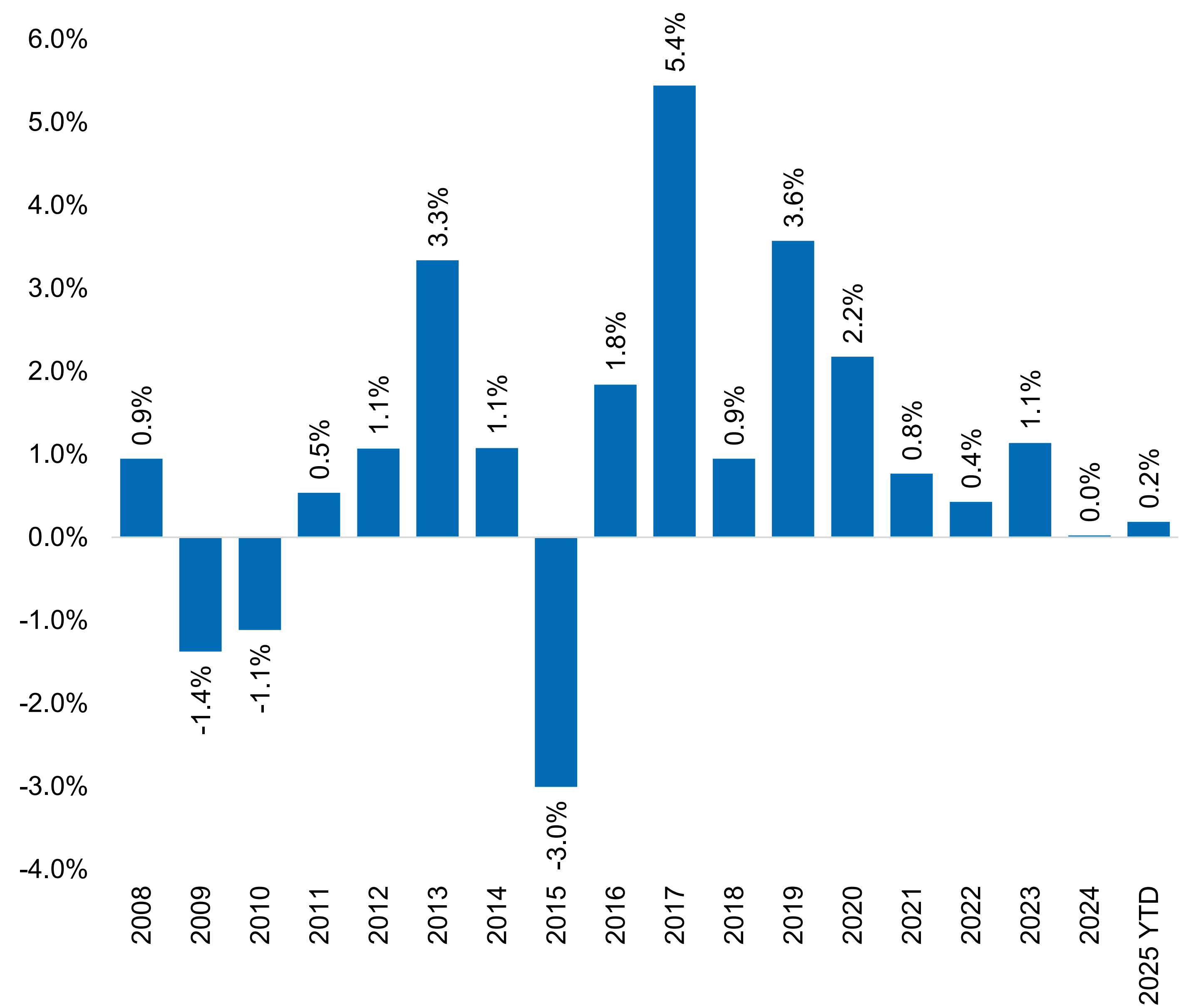
Rents Remain Stabilized to Begin 2025

Asking rents ended Q1 2025 at $42.88 PSF, staying relatively flat quarter-over-quarter. Rent growth began decelerating in 2020 and has remained relatively flat since the end of 2023, seeing a slight growth of 0.2% over that time.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

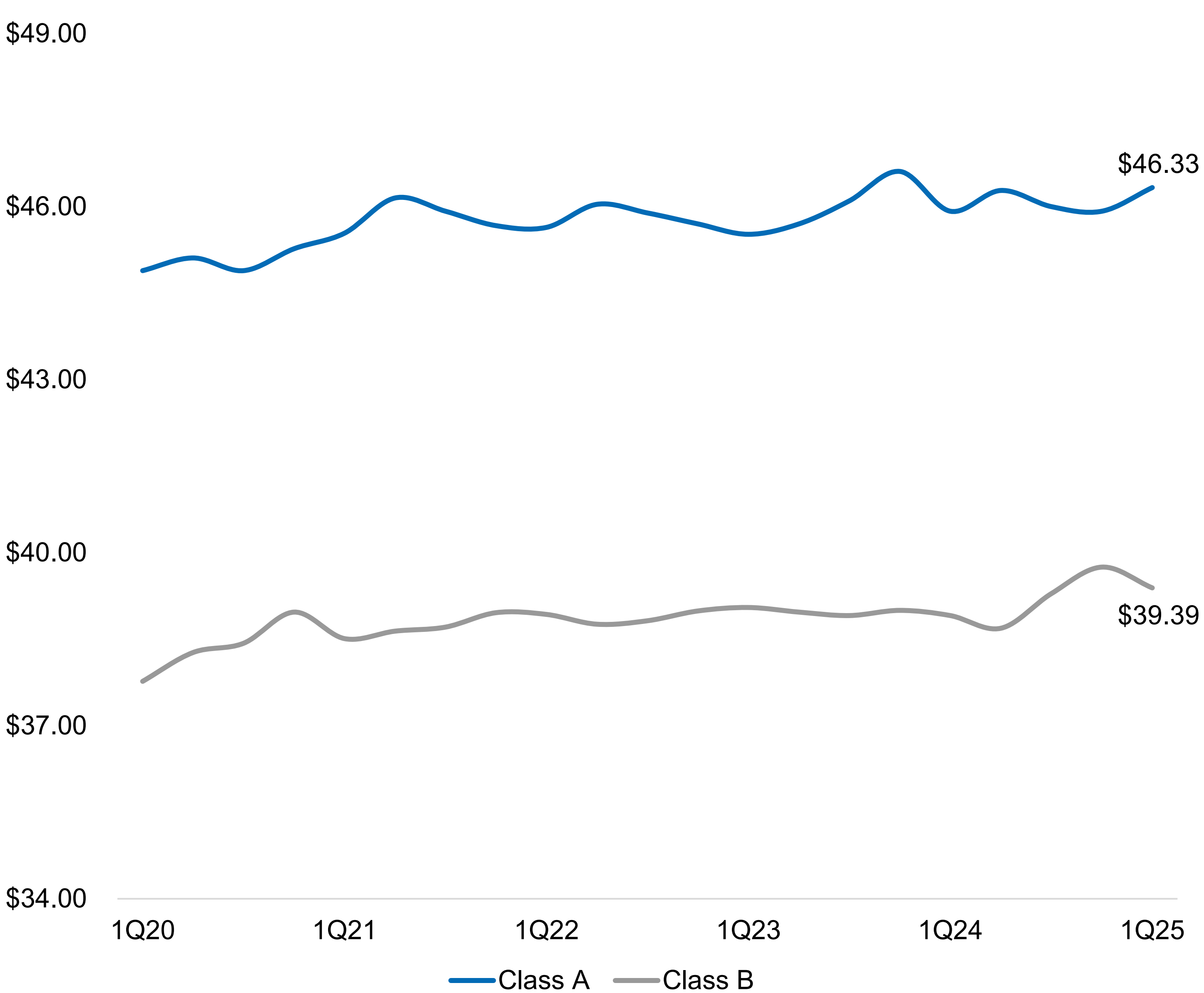


Source: Newmark Research

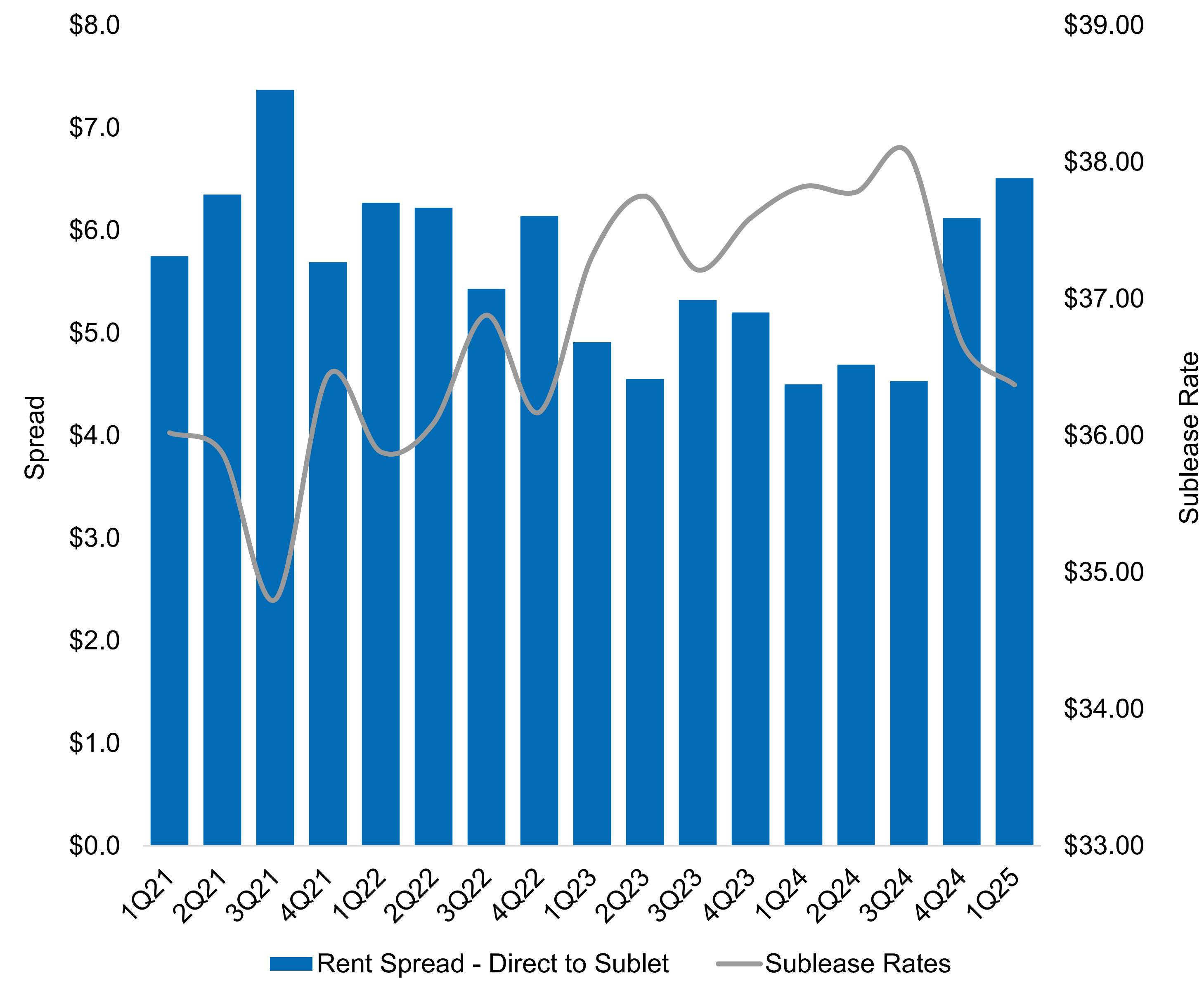
Class A Office Rents Increase While Class B Rents Decline

Class A asking rents increased 0.9% during Q1 2025, ending the quarter at $46.33 PSF. Class B asking rents, on the other hand, declined 0.9% during Q1 2025, ending the quarter at $39.39 PSF.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

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