2Q25

District of Columbia Office Market Overview

NEWMARK

Market Observations

Economy

- Although the metro's unemployment rate increased slightly quarter-over-quarter, the region's labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% annual increase as of May.
- Construction alongside Education & Health propped up job growth in the region with a 7.5% 12-month increase and a 3.5% 12-month increase, respectively, leading to total nonfarm employment growth of 0.8%. The Financial Activities sector also experienced 12-month growth of 0.2%, while the Information and Business & Professional sectors saw 12-month declines of 0.2% and 0.5%, respectively.
- Current reported jobs numbers are from May 2025 and do not reflect recent federal Reduction in Force events, which a recent Supreme Court ruling will allow to proceed Expect to see DOGE's effects impact D.C.'s jobs numbers in next quarter's reporting.
- The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May of 2020.

Major Transactions

- Office investment sales price per square foot as well as total transaction volume increased during the second quarter of 2025, with the 12-month average PSF of $297 down from the recent peak of $645 PSF in 1Q23. The trailing 12-month total transaction volume as of the first quarter was $2.0 billion, down from the recent peak of $3.1 billion in 1Q22. However, owner-user sales and conversion opportunities are bright spots propping up demand in the District of Columbia capital markets.
- Notable sales during the quarter included Capitol Plaza I, located at 1200 1st Street NE, which was sold by Principal RE Investors to Easterly Government Properties for $133.5 M, or $457/SF.

Leasing Market Fundamentals

- The District of Columbia experienced 546,635 SF of negative net absorption during the second quarter of 2025. Registering 19.7% as of the second quarter, the vacancy rate increased 50 basis points quarter-over-quarter and 70 basis points year-over-year.
- Net negative absorption during the second quarter was partly due to CoStar's official vacating of its former headquarters at 1331 L Street NW, as well as some federal government tenants.
- 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.
- Overall asking rental rates declined 0.3% quarter-over-quarter during the second quarter of 2025 and are 2.9% lower than their peak in 2020, ending the quarter at $56.37 psf. Further conversion activity and a limited development pipeline will help to increase future rents.
- 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 continues to face major headwinds from the current administration, especially related to tariffs and the real estate and staffing cuts driven by DOGE, which were tempered during the second quarter as the Supreme Court considered related cases. Major lease transactions and development projects were put on hold amid the uncertainty, but recent decisions may speed cuts and reductions in force. 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 the District experienced more than 900,000 square feet of negative absorption through the first half of 2025, the continued conversion of obsolete office space to other uses will help to mitigate rising vacancy in a period of limited demand. Slowing speculative office construction will also soften issues of oversupply in the near term.

TABLE OF CONTENTS

1. Economy
2. Leasing Market Fundamentals
3. Submarket Stats

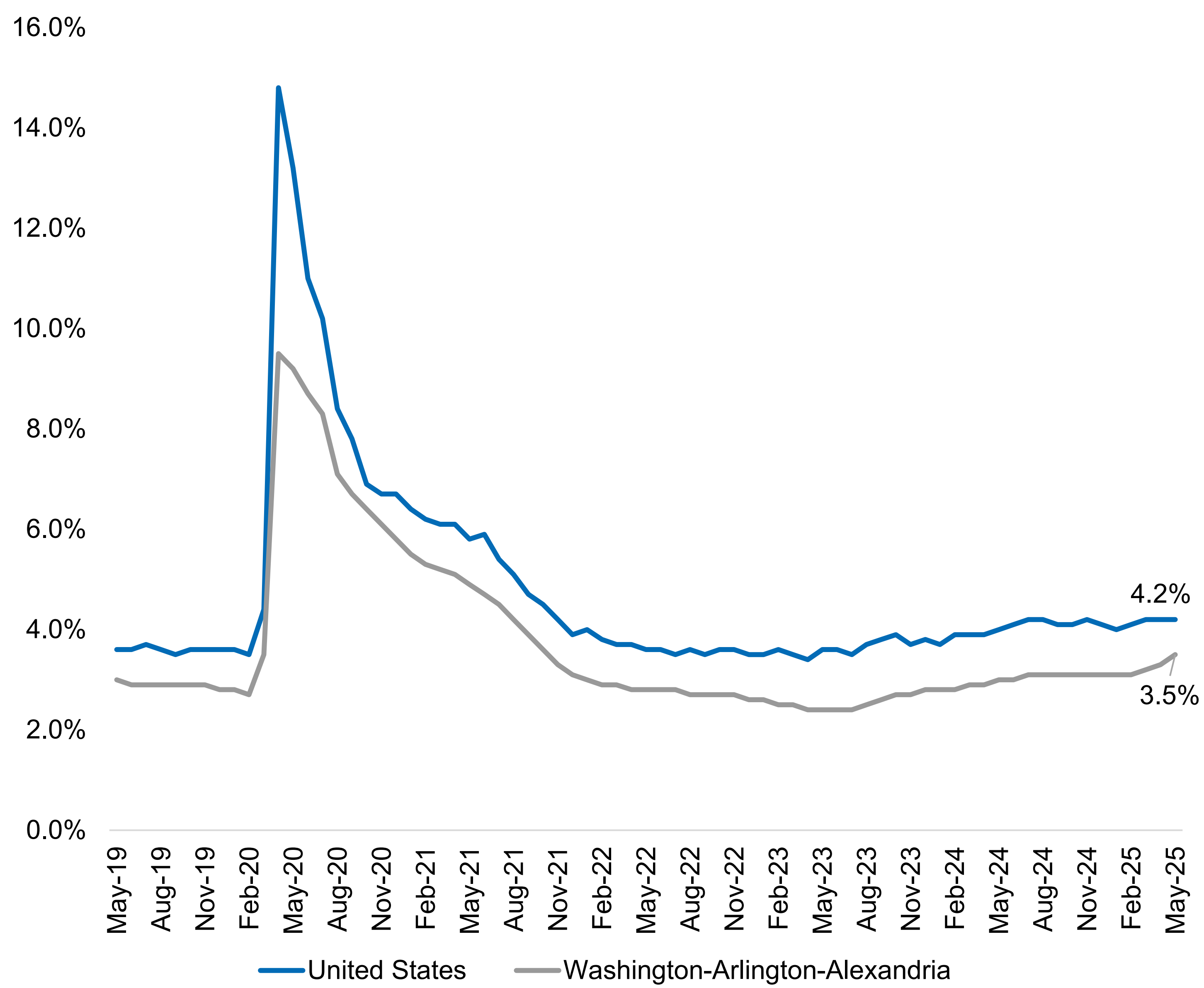
2Q25

Economy

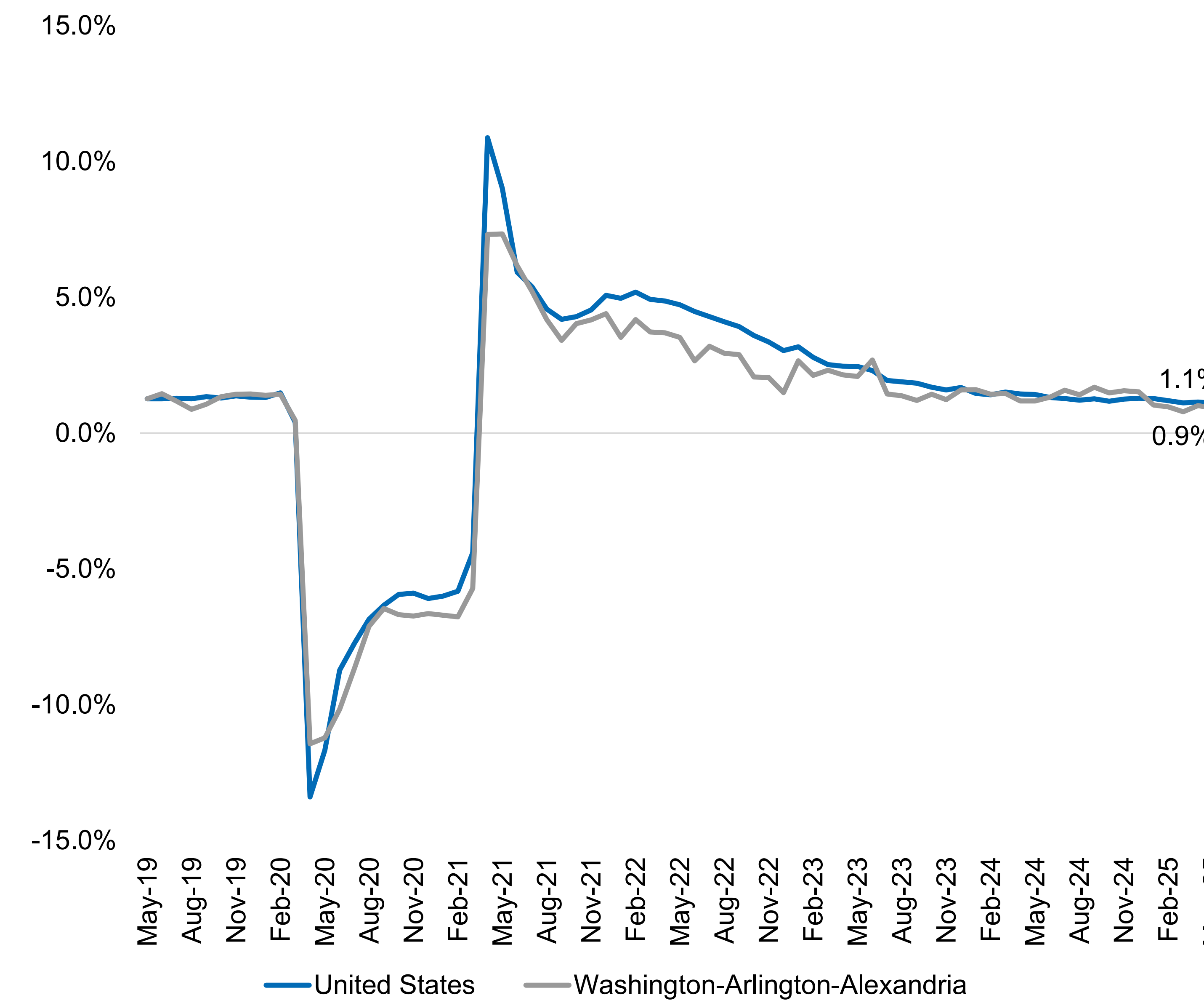
Metro Unemployment Rate Remains Tighter Than National Average

Although the metro's unemployment rate increased slightly quarter-over-quarter, the region's labor market remains tight, with unemployment 70 basis points below the national average. Regional nonfarm job growth remains positive, with a 0.9% 12-month increase as of May.

Unemployment Rate, Seasonally Adjusted



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

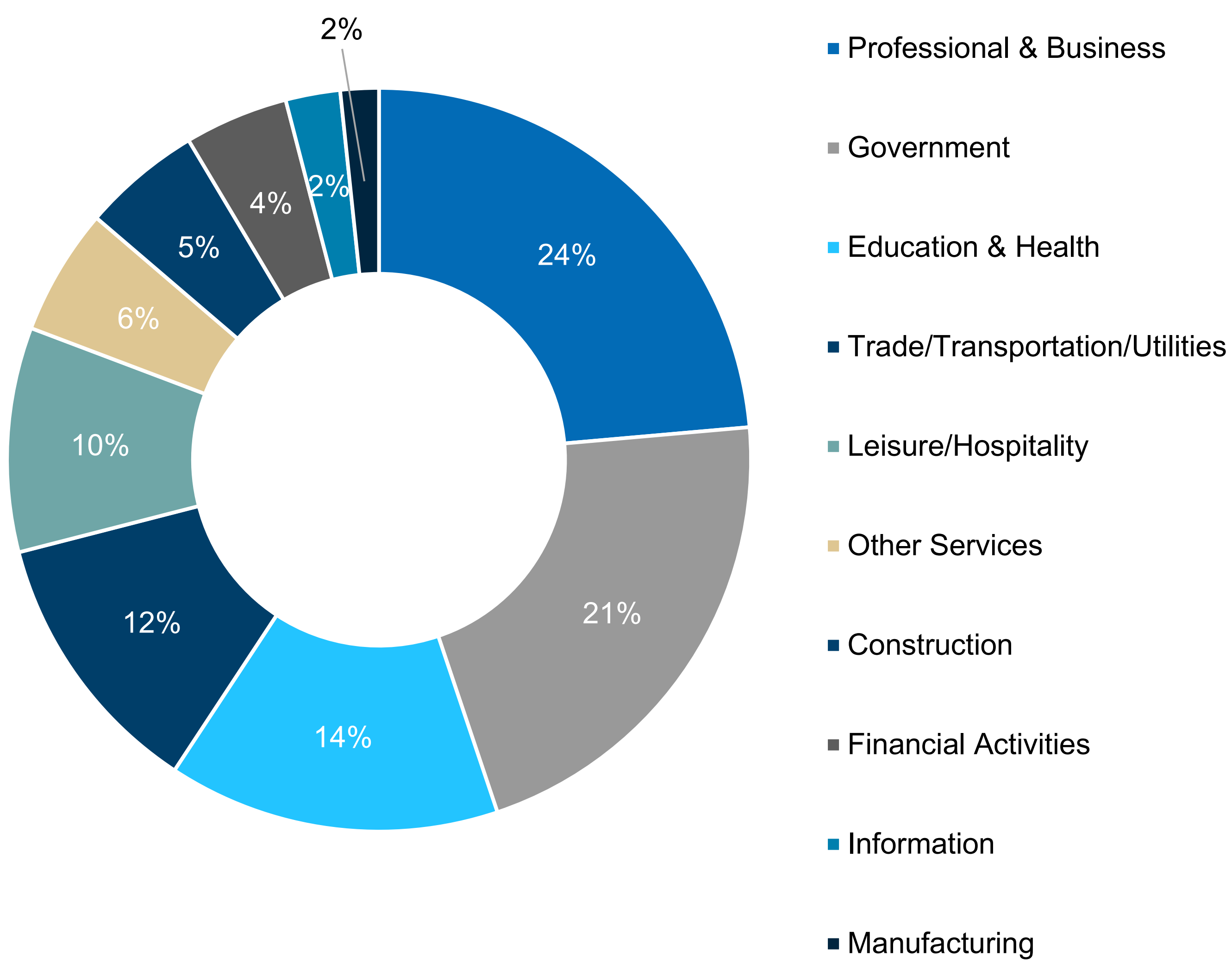


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

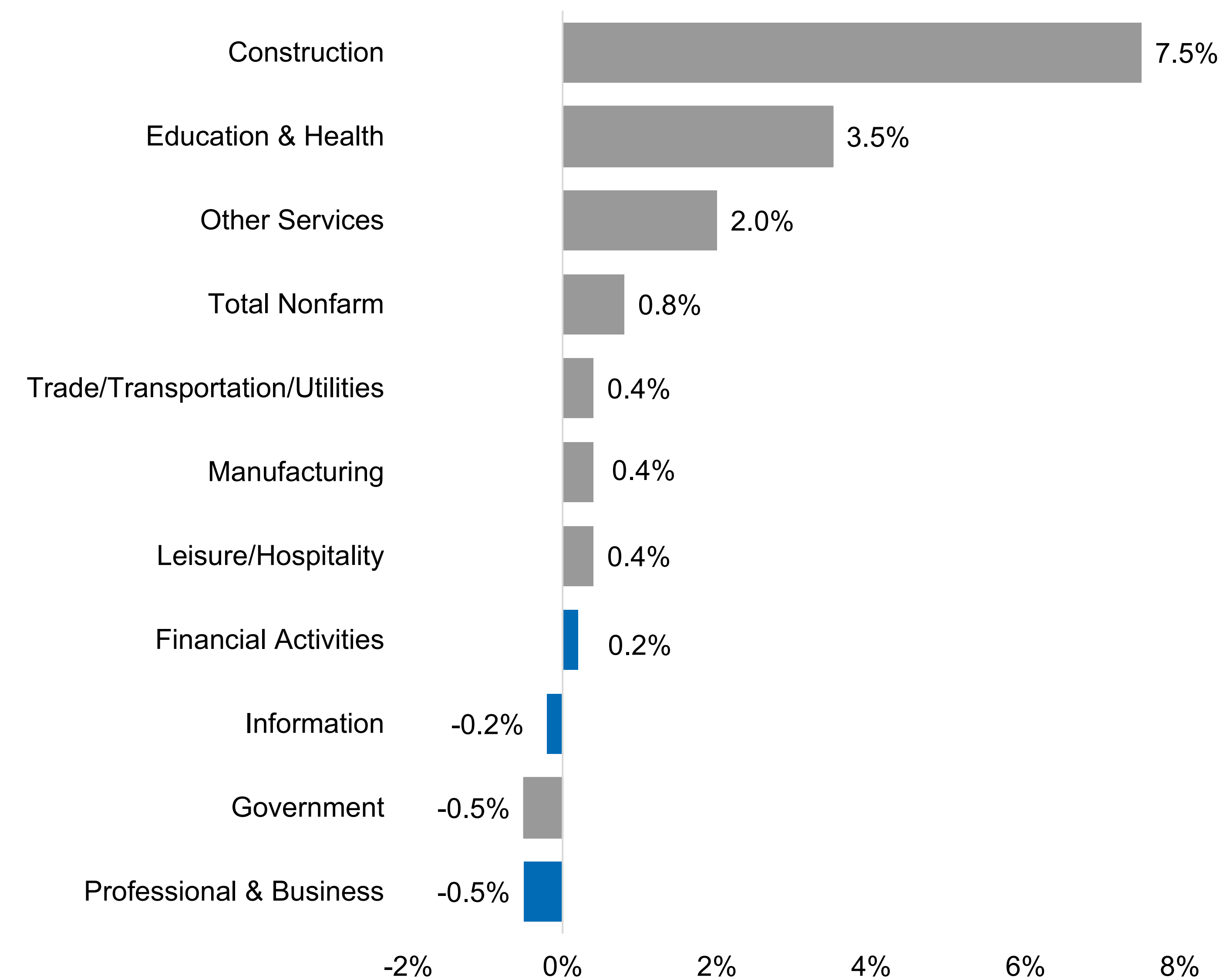
Job Growth Driven by Construction Alongside Education & Health

While total nonfarm employment increased by 0.8% over the last twelve months, office-using employment sectors saw small growth or contraction. The Professional & Business Services (-0.5%) and Information (-0.2%) sectors each registered 12-month declines, while the Financial Activities sector experienced 0.2% growth over the last year.

Employment by Industry, May 2025



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

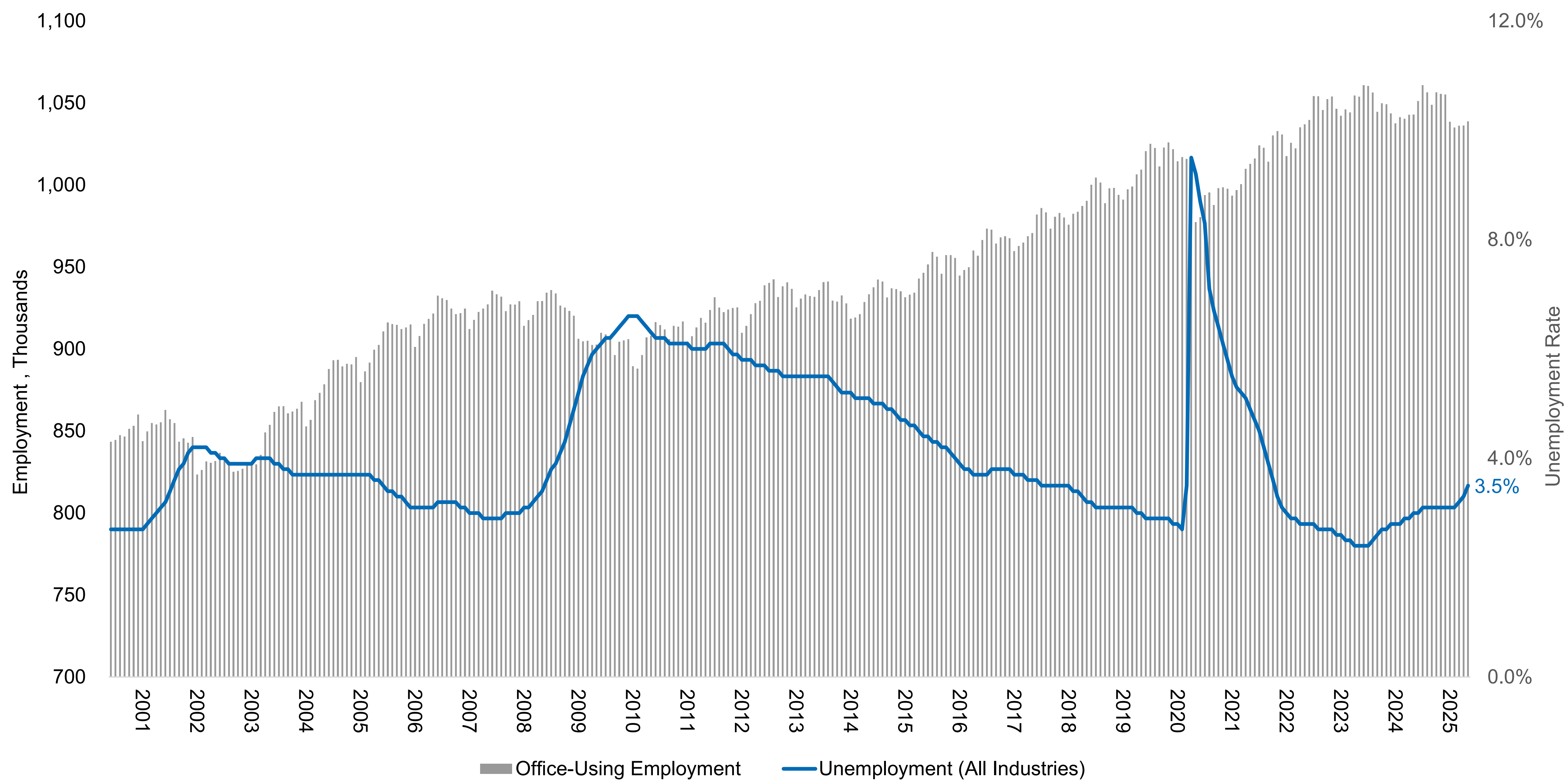


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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 2.3% higher than five years ago—just before the pandemic—and 6.3% higher than the pandemic-induced employment trough in May 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.

Please reach out to your
Newmark business contact for this information

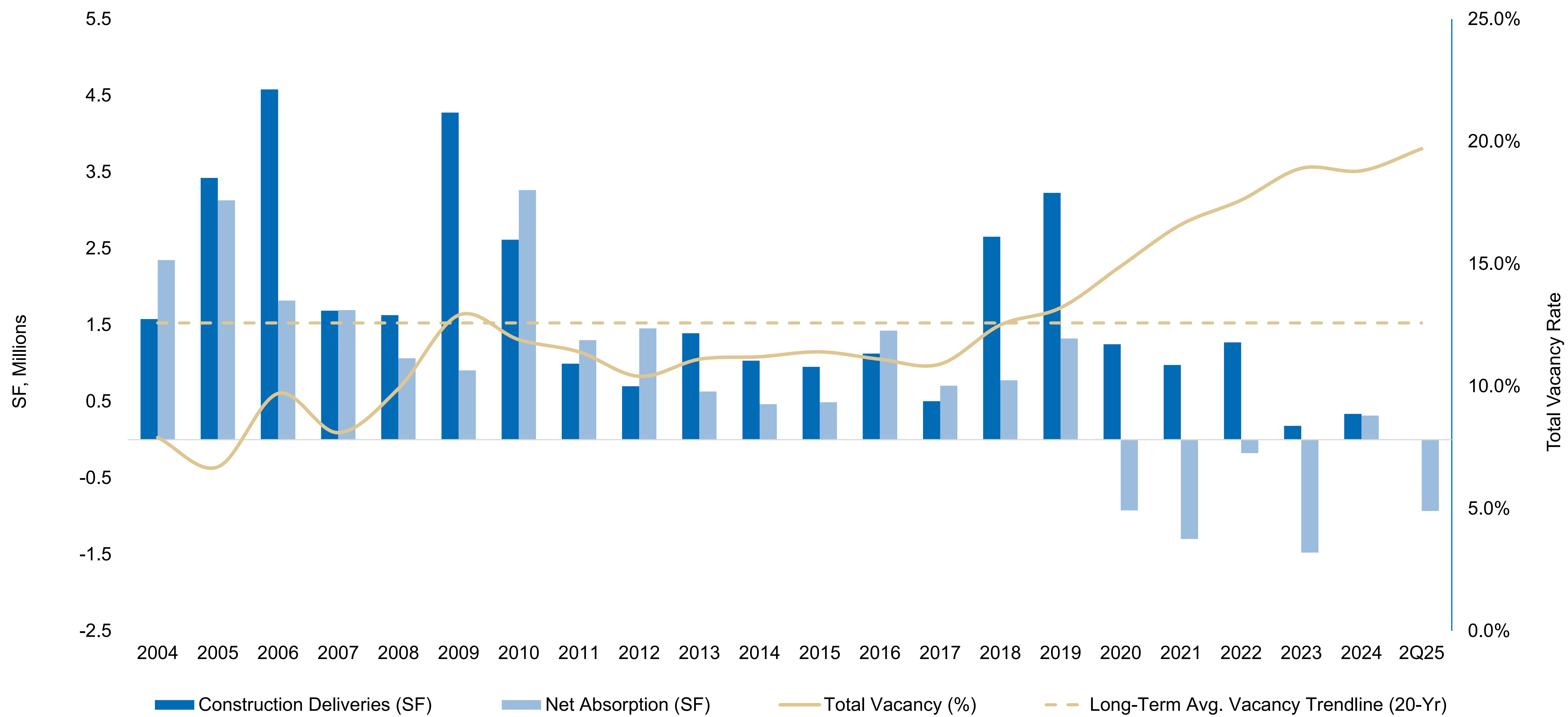
2Q25

Leasing Market Fundamentals

Vacancy Increases Over First Half of 2025

The District of Columbia's vacancy rate ended the second quarter of 2025 at 19.7%, an increase of 50-bps quarter-over-quarter and 40-bps year-over-year. While the District experienced more than 900,000 square feet of negative absorption through the first half of 2025, the continued trend of converting obsolete office space to other uses, 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



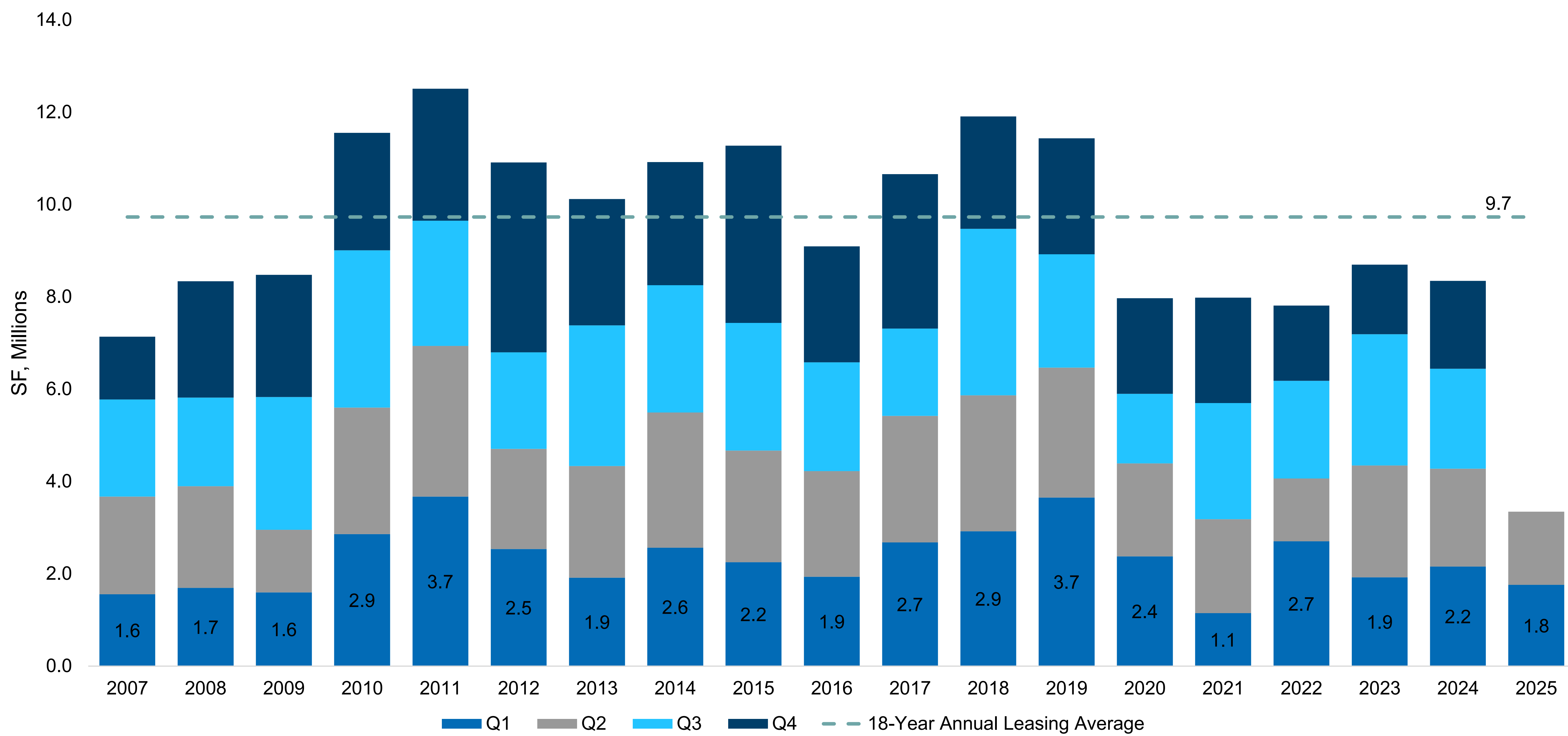
Source: Newmark Research

Please reach out to your
Newmark business contact for this information

Second Quarter Leasing Activity Slows Slightly with Law Firms Leading Way

The District of Columbia office market saw 1.6 MSF of leasing activity during the second quarter of 2025. While down nearly a half-million square feet compared with the same period one year ago, the number is likely to increase once all second-quarter leases are tallied. So far, leasing activity through the first half of the year lags behind average first-half activity during the previous three years. Limited trophy space availability is driving lease activity, with some tenants - specifically law firms - competing for the best space and considering early termination options. Smaller spec suites are the primary target for new leases under 10,000 SF.

Total Leasing Activity (msf)

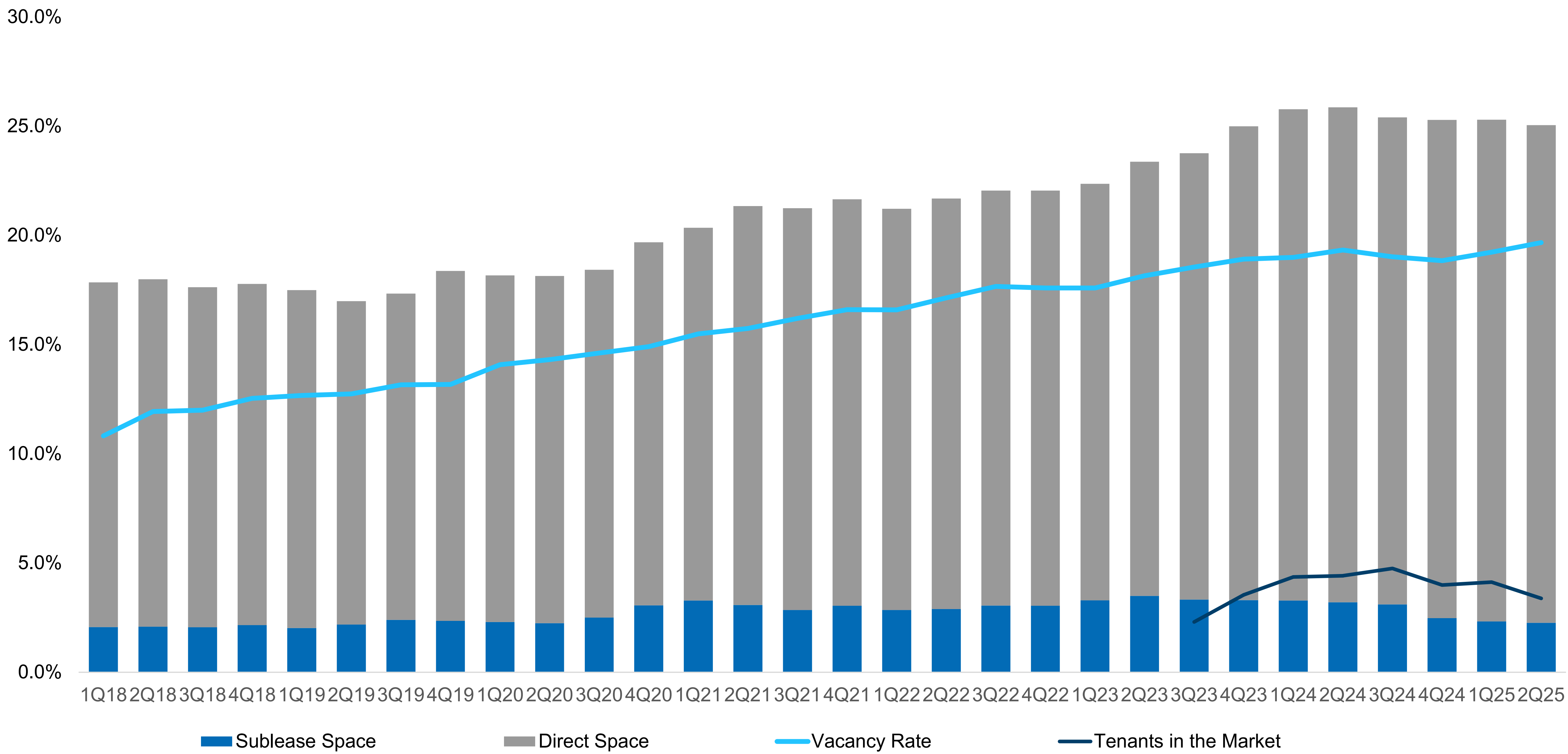


Source: Newmark Research, CoStar
*Most recent quarter data is subject to change due to lag in CoStar data

Sublease Availability Continues to Trend Lower

Overall availability rates have come down slightly from their peak at the beginning of 2024 but remain elevated. The second-quarter availability rate of 22.8% is up 10 bps from the year prior and well above the five-year average of 19.7%. The availability rate for sublease space was 2.3% as of the second quarter, down 90 bps from the year prior, and well below the five-year average of 3.0% This decline in sublease availability illustrates the increasing demand for ready-to-go functional office space in the District.

Available Space and Tenant Demand as Percent of Overall Market

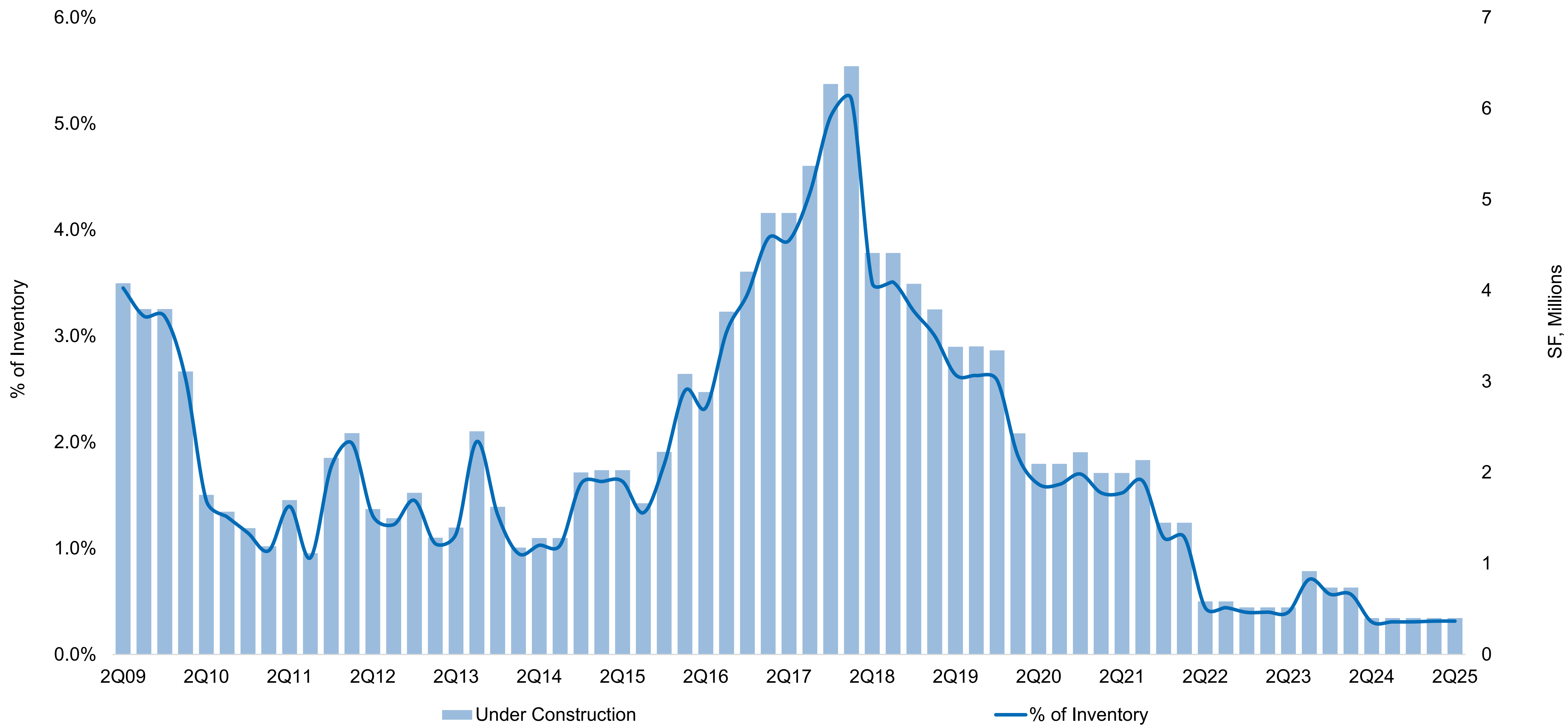


Source: Newmark Research

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 four 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 earlier this year 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

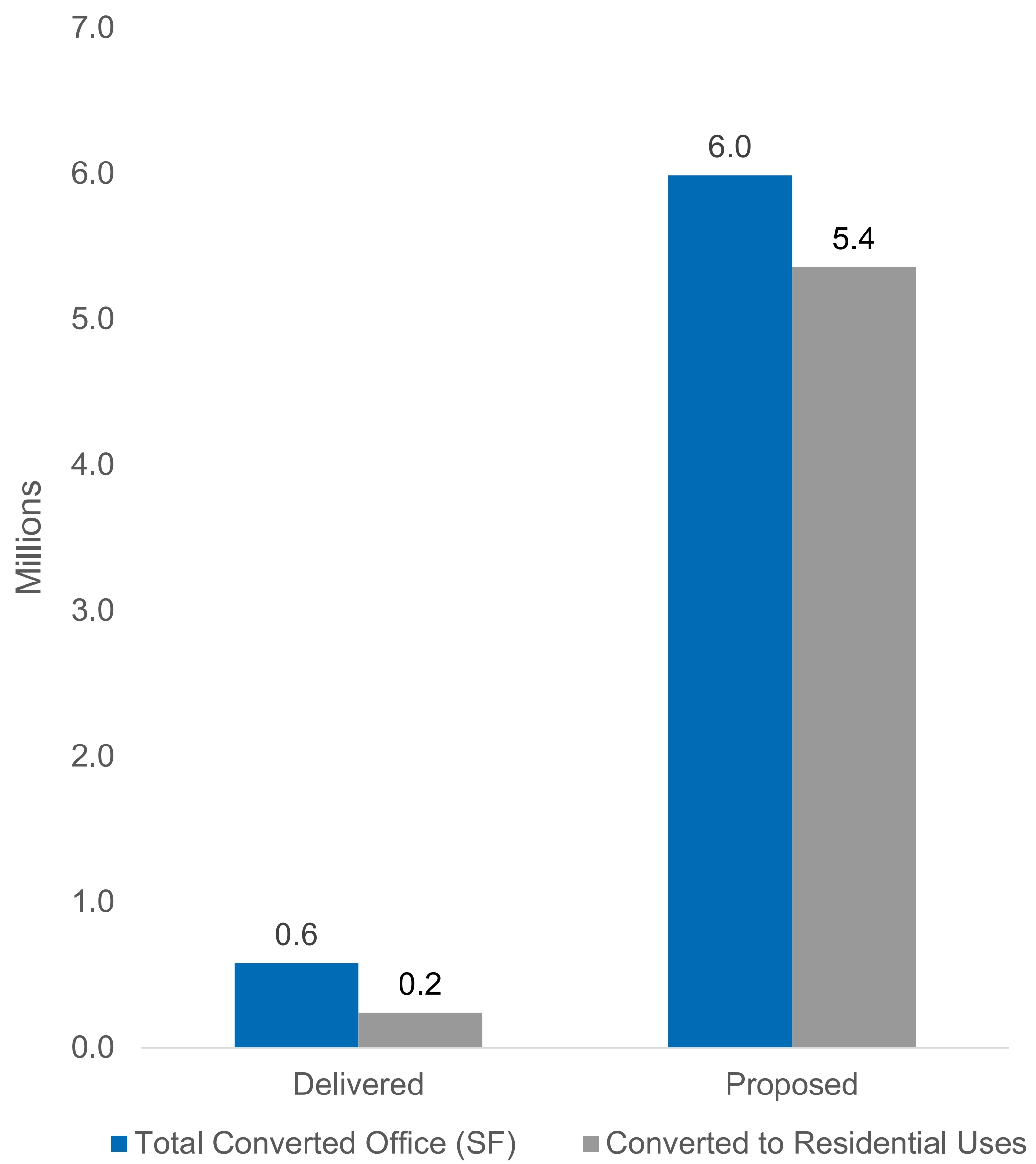


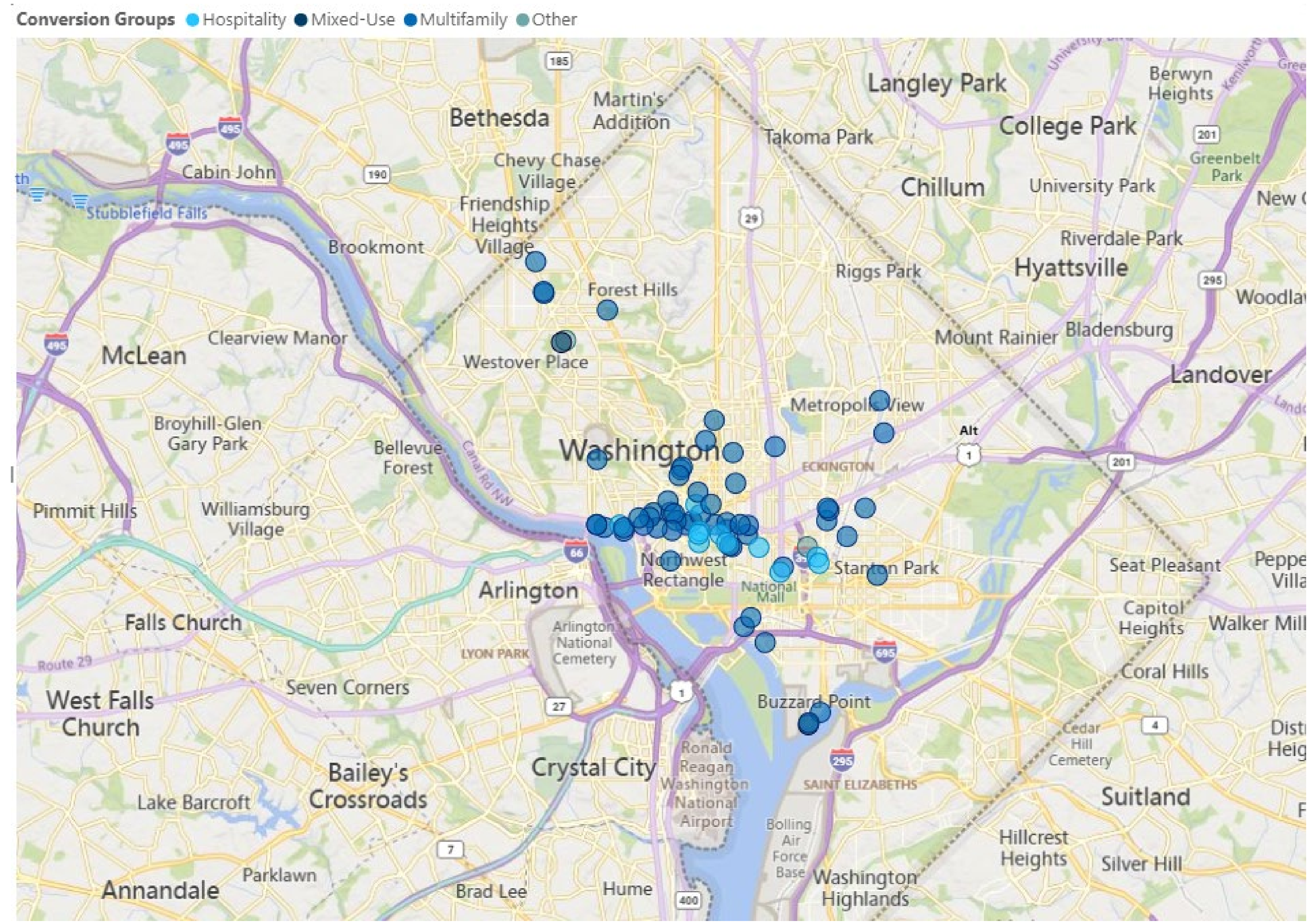
Source: Newmark Research, CoStar

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

Since 2020, nearly 6.6 million SF of office space in the District has been converted—or is in the process of being converted—to other uses. Approximately 240,000 SF of the 580,000 SF of office space that has been removed from inventory in the District of Columbia since 2020 was converted to residential uses. Looking forward, approximately 6.0 MSF of office space is proposed to be converted into other uses, with 5.4 MSF of that space slated for residential use.

DC Office Conversions Delivered or Proposed After 2020



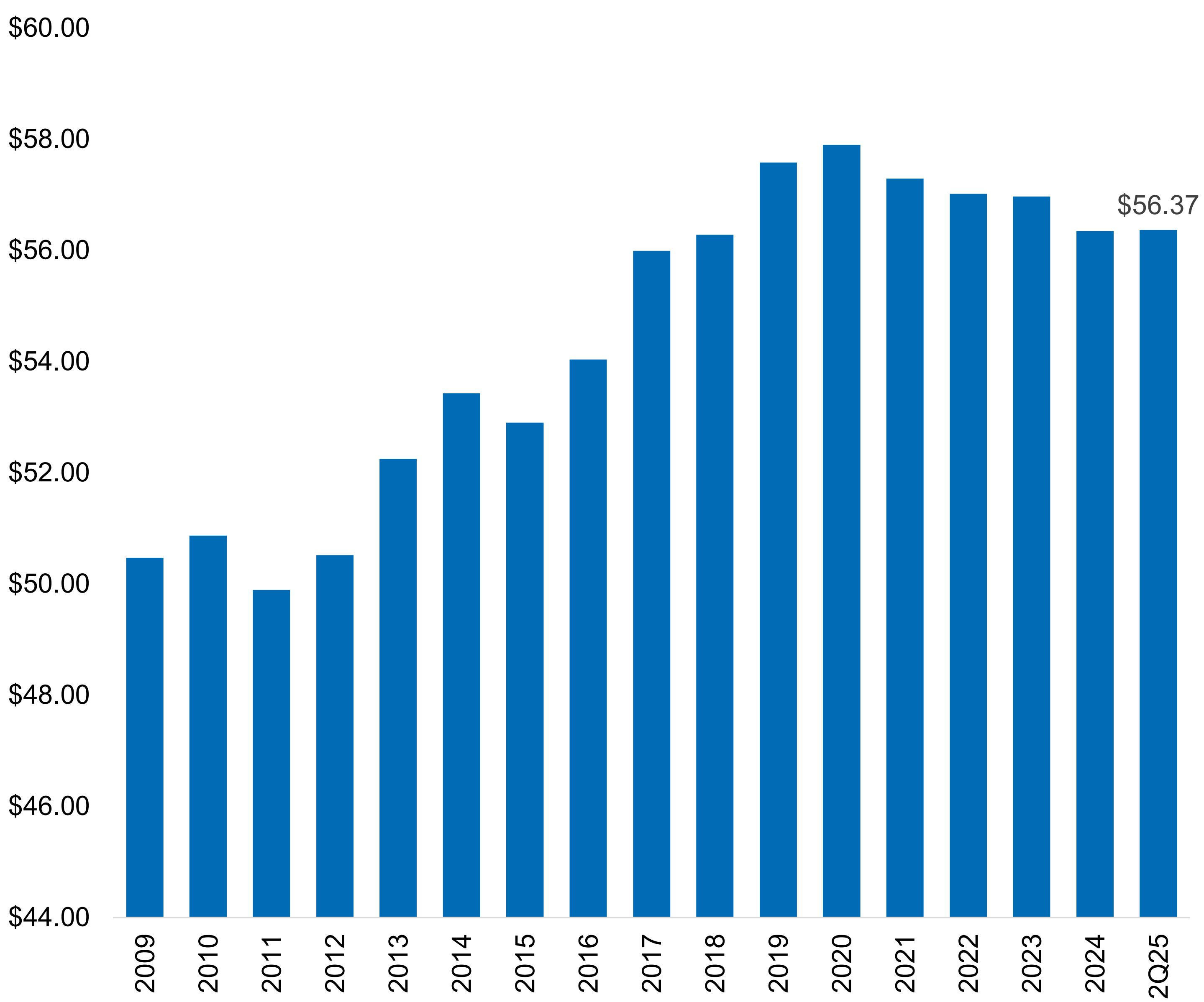


Source: Newmark Research

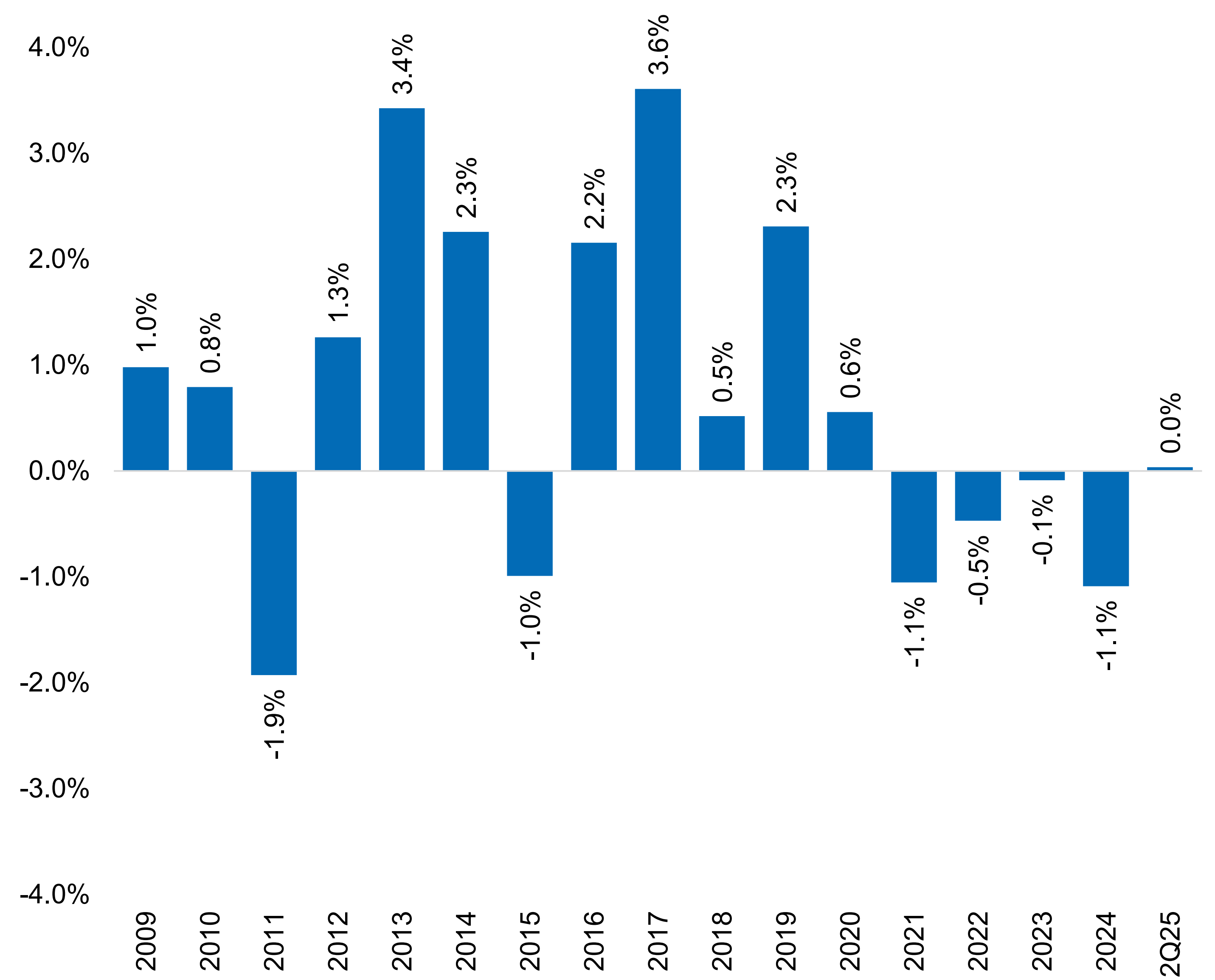
District of Columbia Asking Rents Steady During Second Quarter

After decreasing year-over-year since 2020, second-quarter asking rental rates were down 0.1% compared with the same period last year, but even with the end of 2024. Rents are 2.9% lower than their peak in 2020, ending the quarter at $56.37 psf. 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

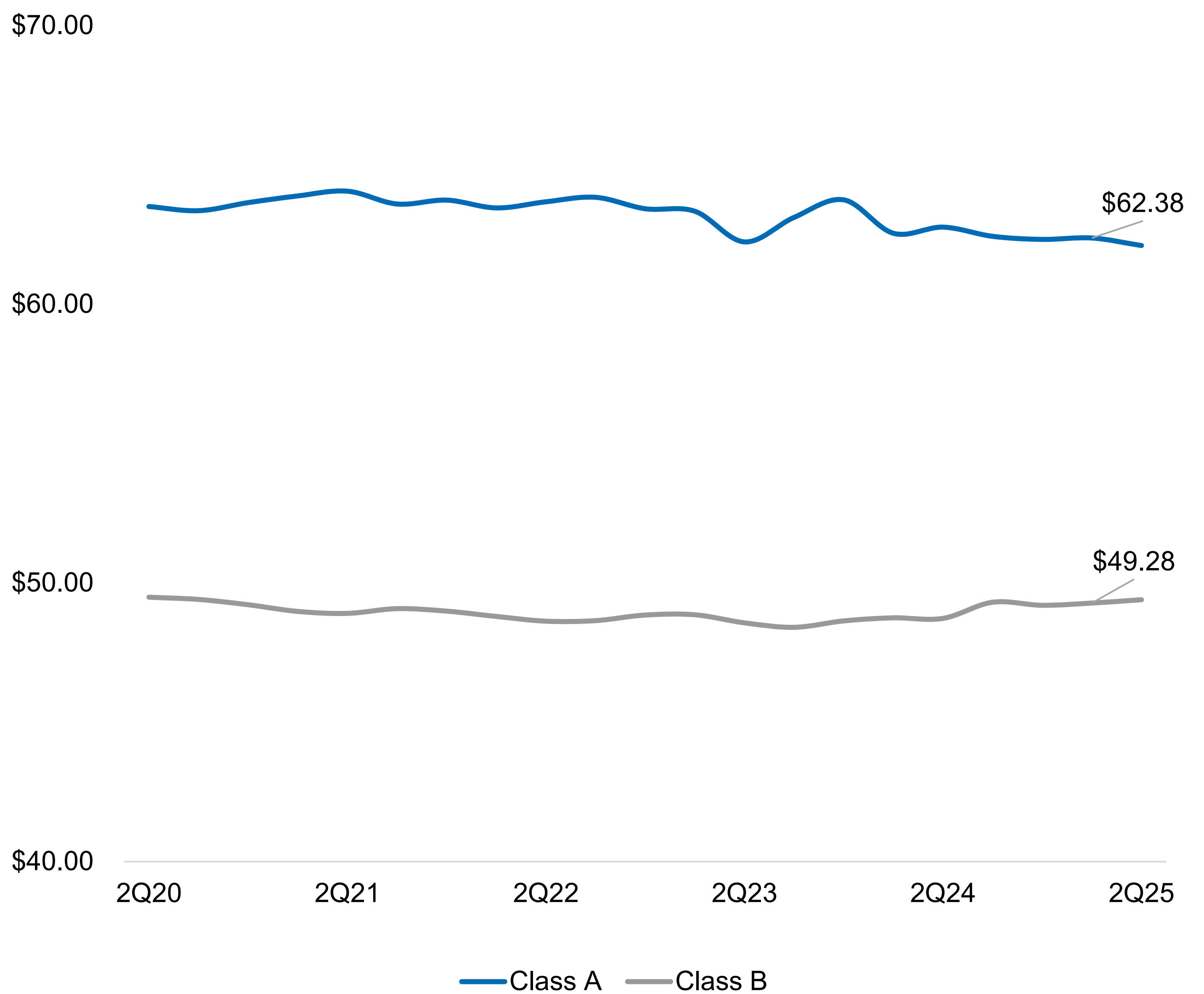


Source: Newmark Research

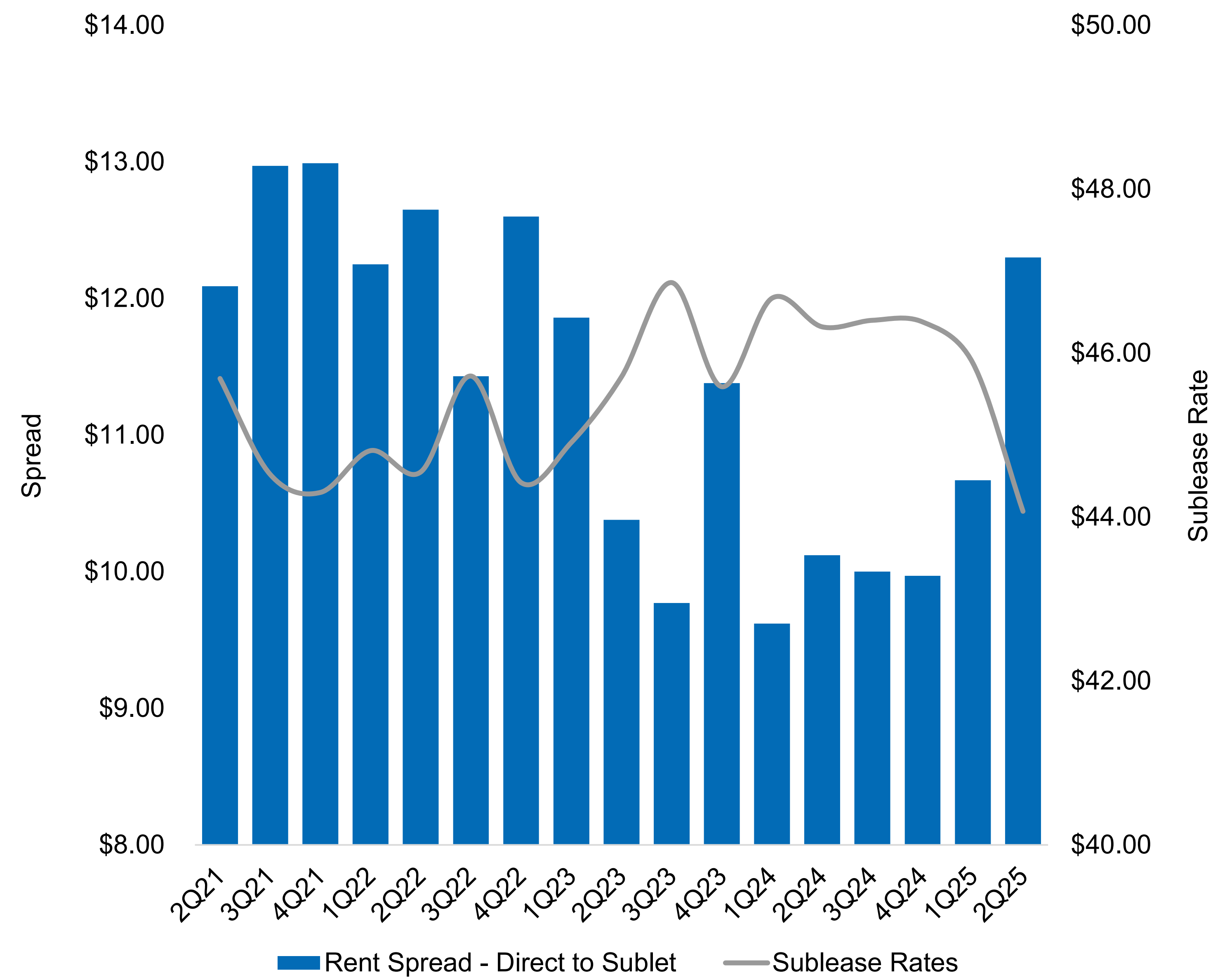
Spread Between Class A and Class B Asking Rents Tightens

The spread between Class A and Class B rents tightened during the second quarter of 2025, with Class A rents decreasing by 1.1% year-over-year, while Class B rents increased by 1.4% over the same period. Over the past five years, Class A rents have declined by 2.2% compared with a 0.2% decline for Class B rents. The rent spread between direct and sublet deals spiked to $12.30 in the second quarter—the largest spread since the end of 2022 and 2.2% above its five-year average.

Class A and Class B Asking Rents



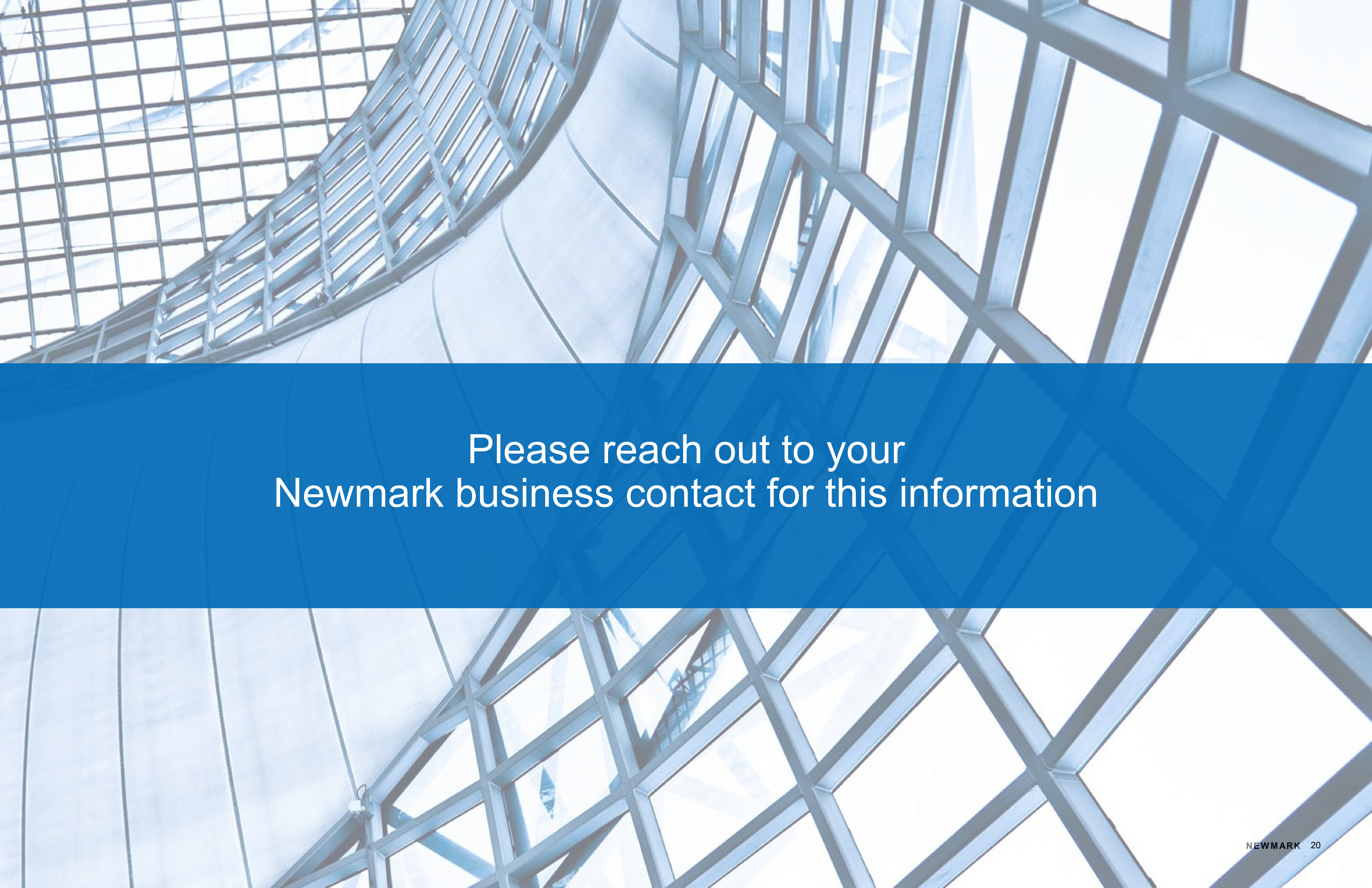
Sublease Rates



Source: Newmark Research

Please reach out to your
Newmark business contact for this information

Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

2Q25

Submarket Stats

Please reach out to your
Newmark business contact for this information

For more information:

Carolyn Bates
Director
Mid-Atlantic Research
carolyn.bates@nmrk.com

Chad Braden
Senior Research Analyst
Mid-Atlantic Research
chad.braden@nmrk.com

Kevin Sweeney
Associate Director
Mid-Atlantic Research
kevin.sweeney@nmrk.com

District of Columbia
1899 Pennsylvania Avenue, NW
Suite 300
Washington, DC 20006
t 202-331-7000

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

NEWMARK