

2Q25

Washington Metro Office Market Overview

NEWMARK

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. May's 3.5% unemployment rate remains lower than the region's ten-year historical average of 3.8%, expanding slightly quarter-over-quarter and year-over-year. Furthermore, the Washington DC metro's unemployment rate is 70 bps lower than the national rate.
- Year-over-year, office-related job gains were pronounced in Education & Health, posting a gain of 3.5%. Furthermore, the Financial Activities sector also experienced notable job gains, increasing 0.2% year-over-year. 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 five years, jobs in the office-using sectors remain at a level that is 2.3% higher than five years ago—just prior to the pandemic—and 6.3% higher than the pandemic-induced employment trough in May 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 Dules Discovery 2, a 434,000-square-foot, ten-story office building located at 13870 Air and Space Museum Parkway within the Route 28 Corridor South submarket. The Class A office building was purchased by the Central Intelligence Agency from Peterson Companies for \$246.4 M, or \$567.74 PSF.

Leasing Market Fundamentals

- The Washington D.C. Metro region experienced over 1.0 MSF of negative net absorption during the first half of 2025. The negative net absorption was largely seen in the District, which experienced 930,000 SF of negative net absorption, followed by Northern Virginia seeing 200,000 SF of negative net absorption. Suburban Maryland, however, saw positive movement during the first half of 2025, experiencing 120,000 SF of positive net absorption.
- Overall vacancy ended Q2 2025 at 20.7%, expanding 30 bps during the first half of 2025. Availability tightened, however, ending Q2 2025 at 24.3%, tightening 20 bps during the first half of 2025.
- Leasing activity was concentrated in the District and Northern Virginia during Q2 2025, with these regions containing the five largest transactions. Government agencies and law firms dominated the headlines, with the four largest leases of the quarter.
- After five deliveries throughout 2024 totaling roughly 1.2 MSF, the market didn't see a delivery during the first half of 2025. The development pipeline ended Q2 2025 with 950,000 SF under construction spread across 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.

1. Economy
2. Leasing Market Fundamentals
3. Market Statistics

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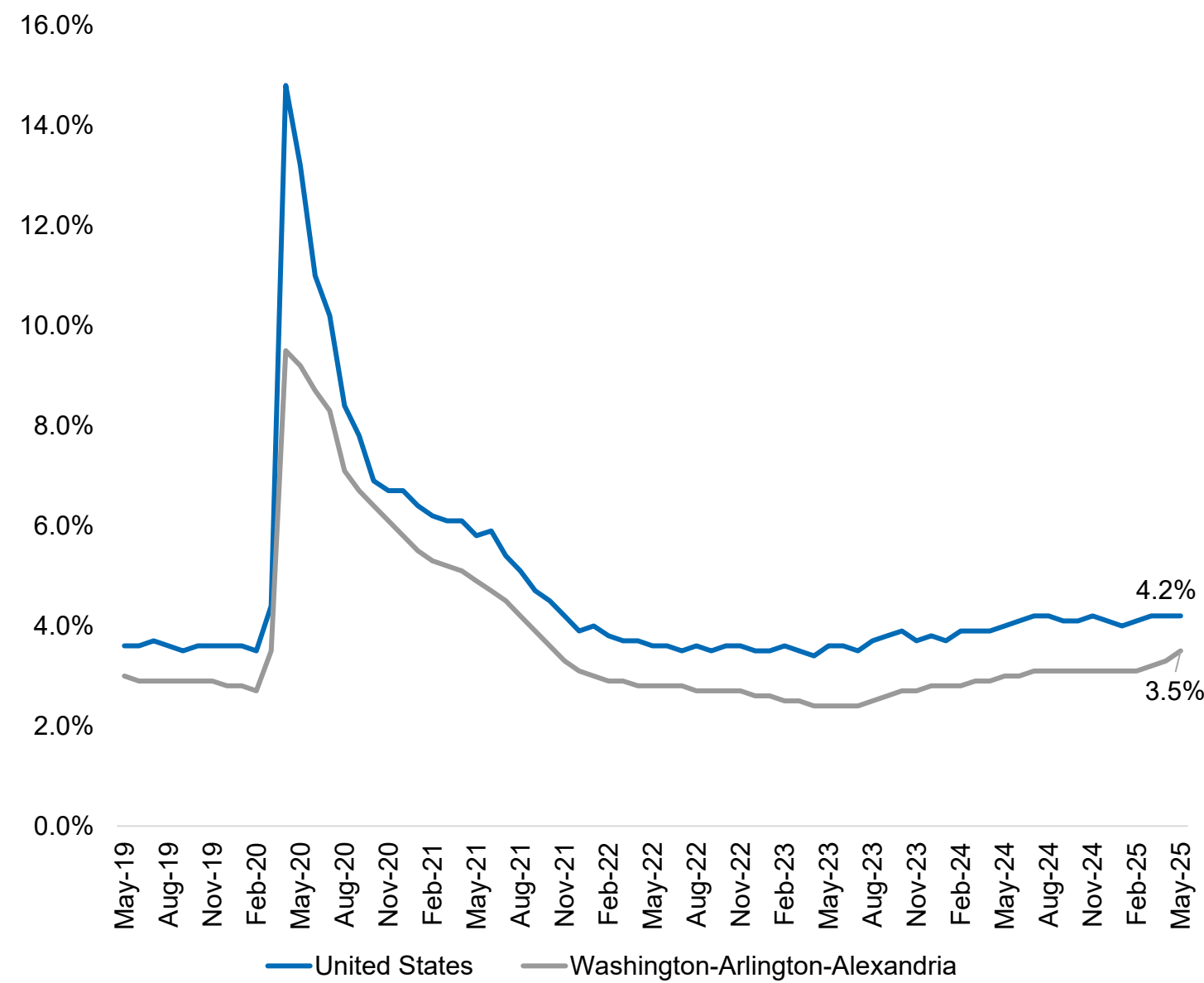
Economy



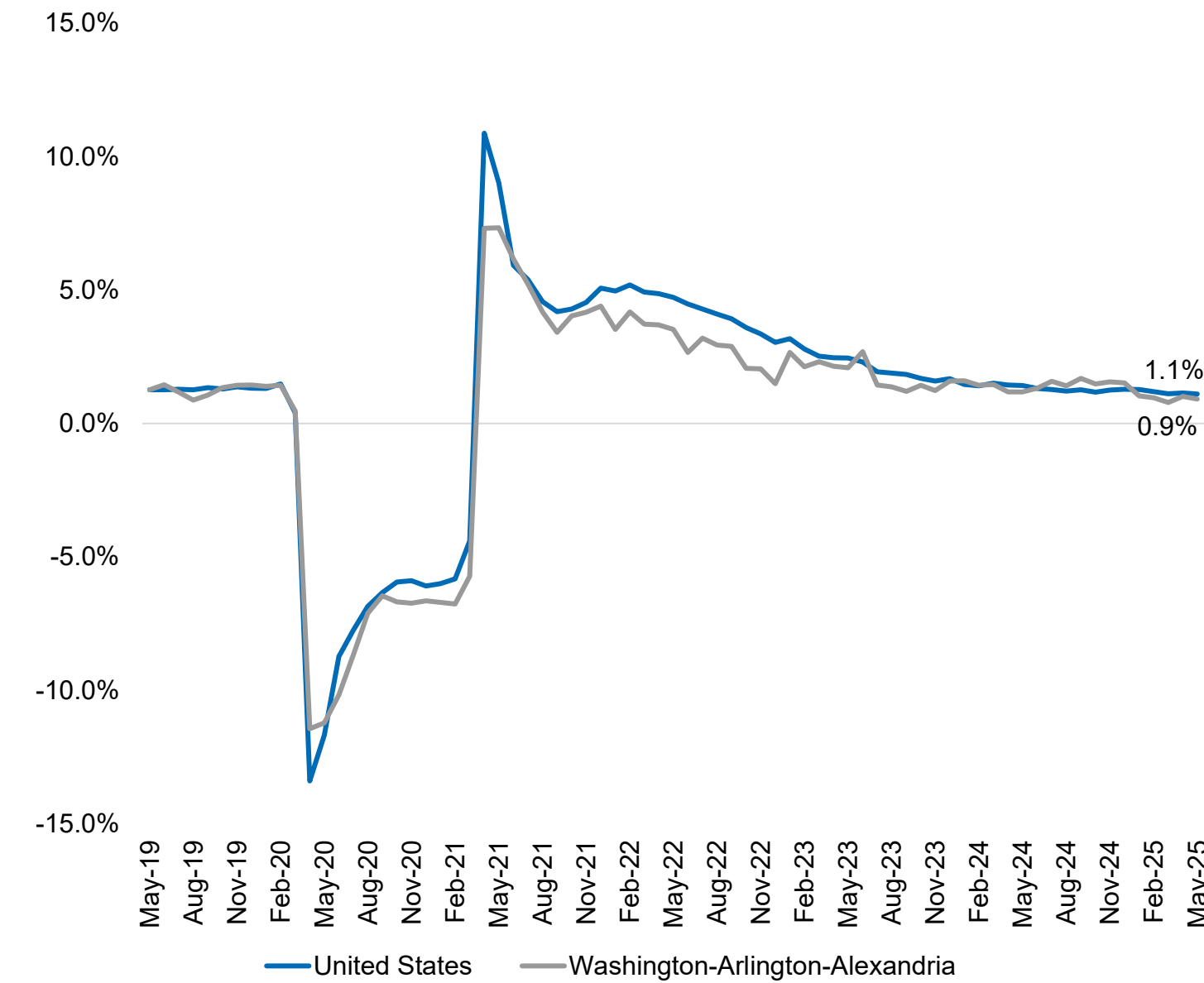
Metro Unemployment Rate Remains Tighter Than National Average

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

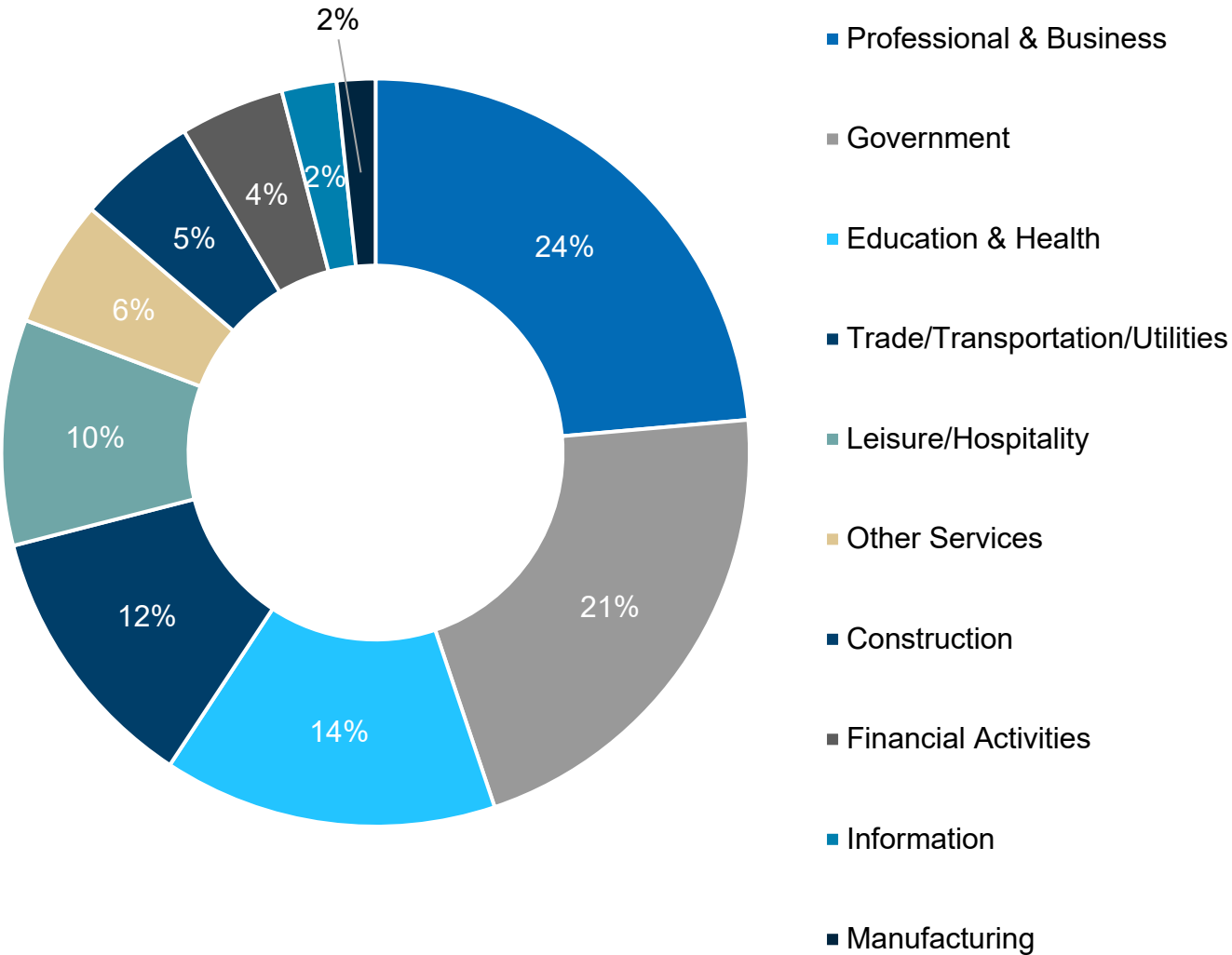


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

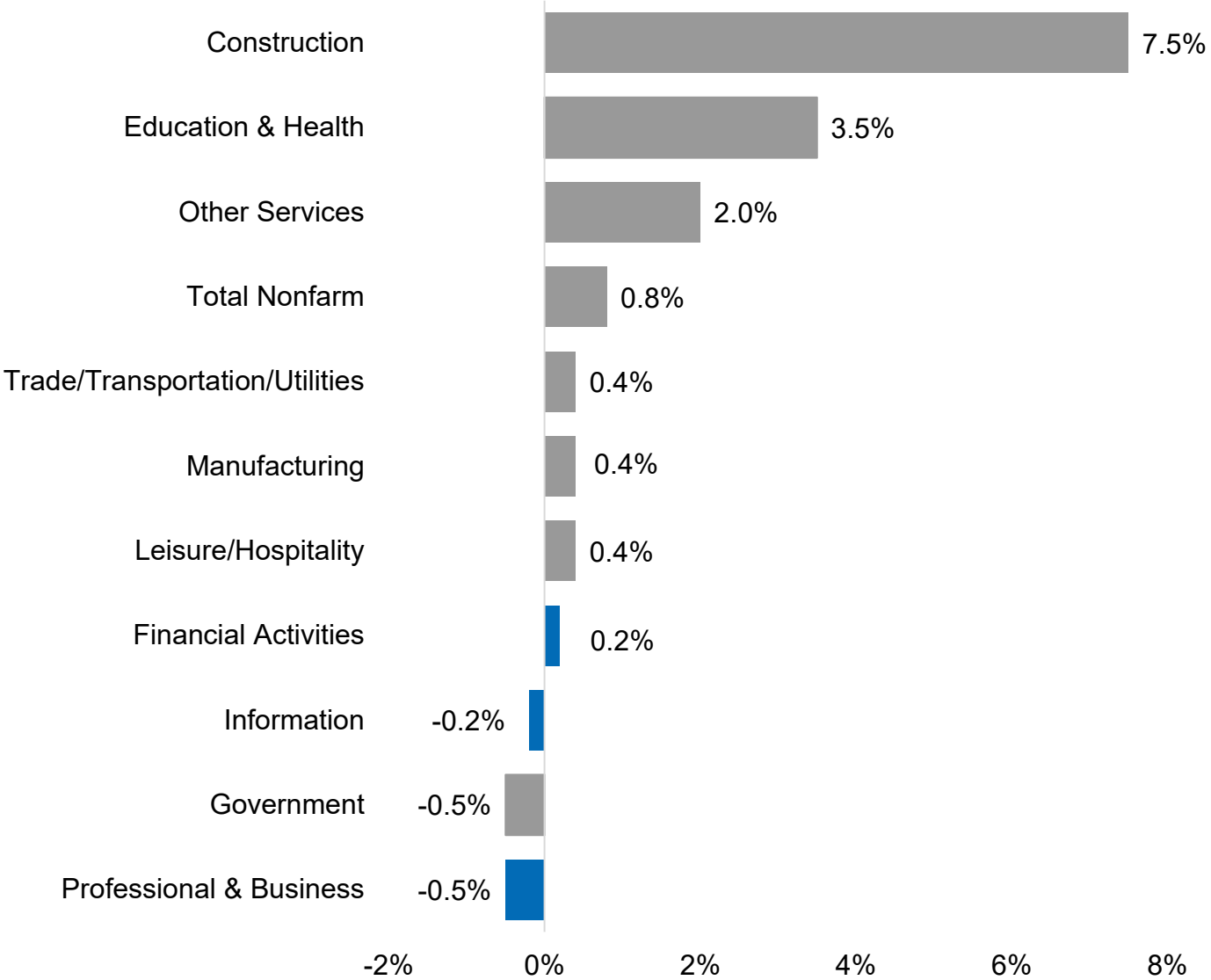
Job Growth Driven by Construction Alongside Education & Health

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.

Employment by Industry, May 2025



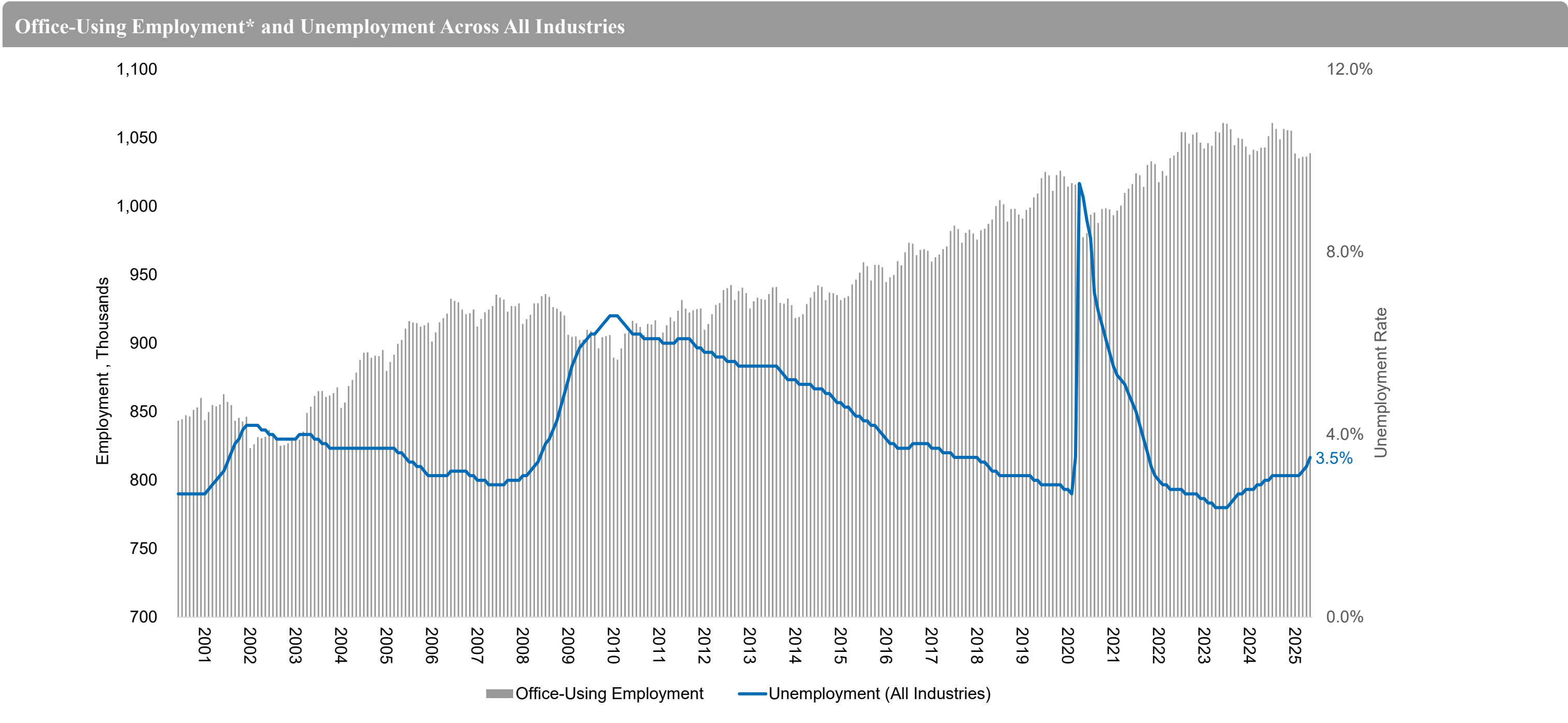
Employment Growth by Industry, 12-Month % Change, May 2025



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.



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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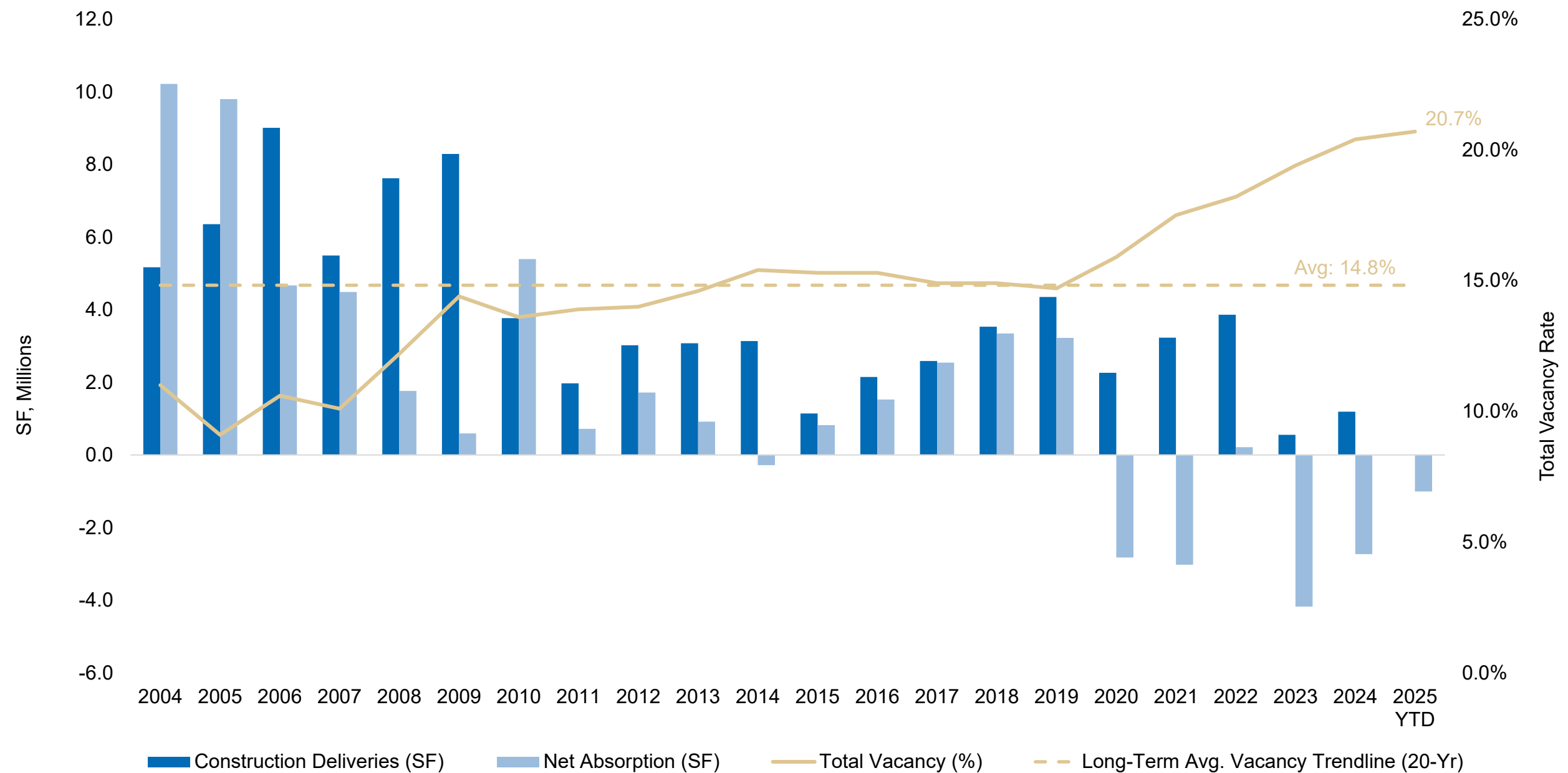
Leasing Market Fundamentals



Market Experiences Rising Vacancies During First Half of 2025

The metro area vacancy rate ended Q2 2025 at 20.7%, expanding 30 bps during the first half of 2025. This expansion in vacancy was due to the market experiencing over 1.0 MSF of negative net absorption during the first half of 2025. The negative net absorption was largely seen in the District, which experienced 930,000 SF of negative net absorption, followed by Northern Virginia seeing 200,000 SF of negative net absorption. Suburban Maryland, however, saw positive movement during the first half of 2025, experiencing 120,000 SF of positive net absorption. The market continues to see a slowdown in development, as it has not experienced any deliveries during the first half of 2025. This slowdown in deliveries and lack of new speculative construction could be advantageous in decreasing vacancy across the market.

Historical Construction Deliveries, Net Absorption, and Vacancy



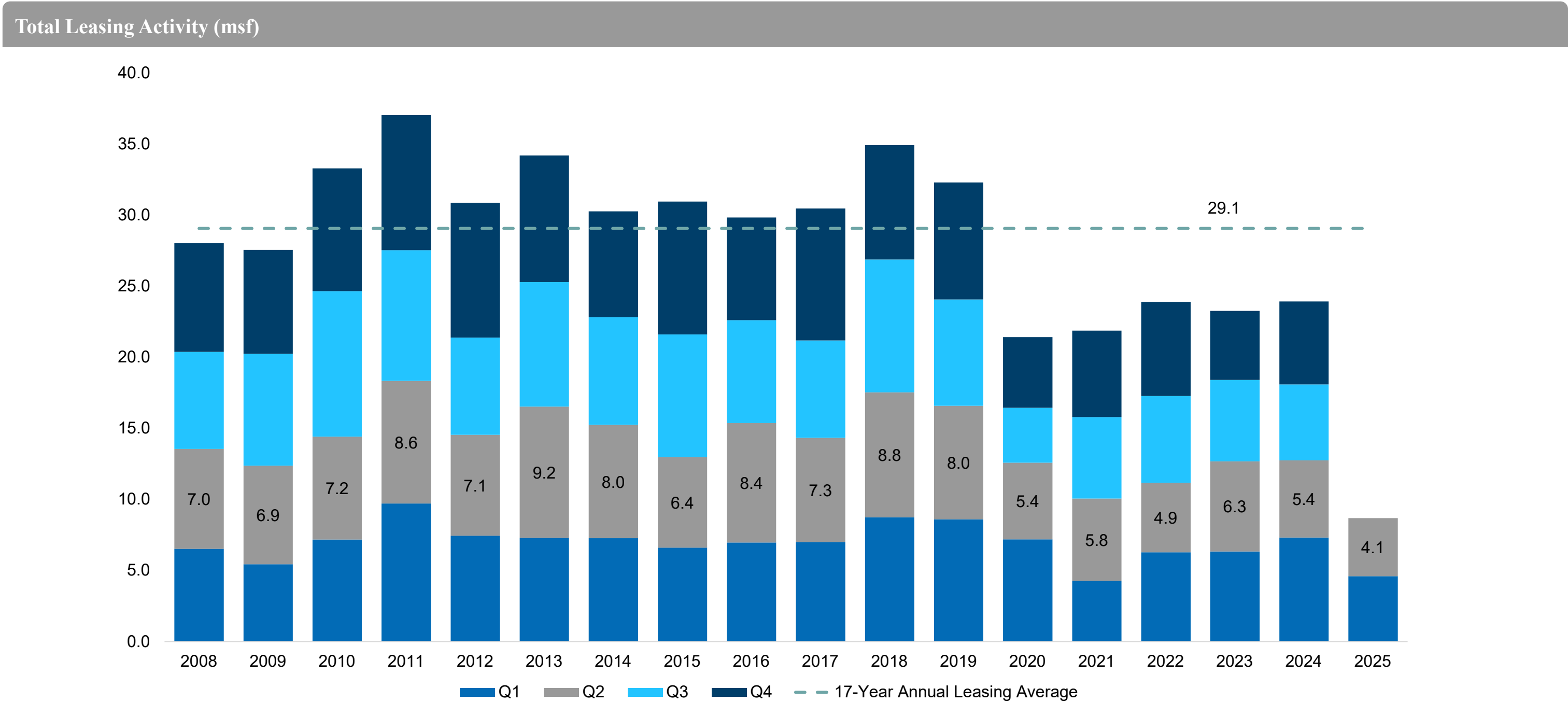
Source: Newmark Research



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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 21 MSF to 24 MSF of annual leasing activity since that point. The market experienced some optimism during 2024, seeing 23.9 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 29.1 MSF. The market continued this low level of leasing activity during Q2 2025, seeing only 4.1 MSF of activity, much less than the second-quarter average of 6.9 MSF.

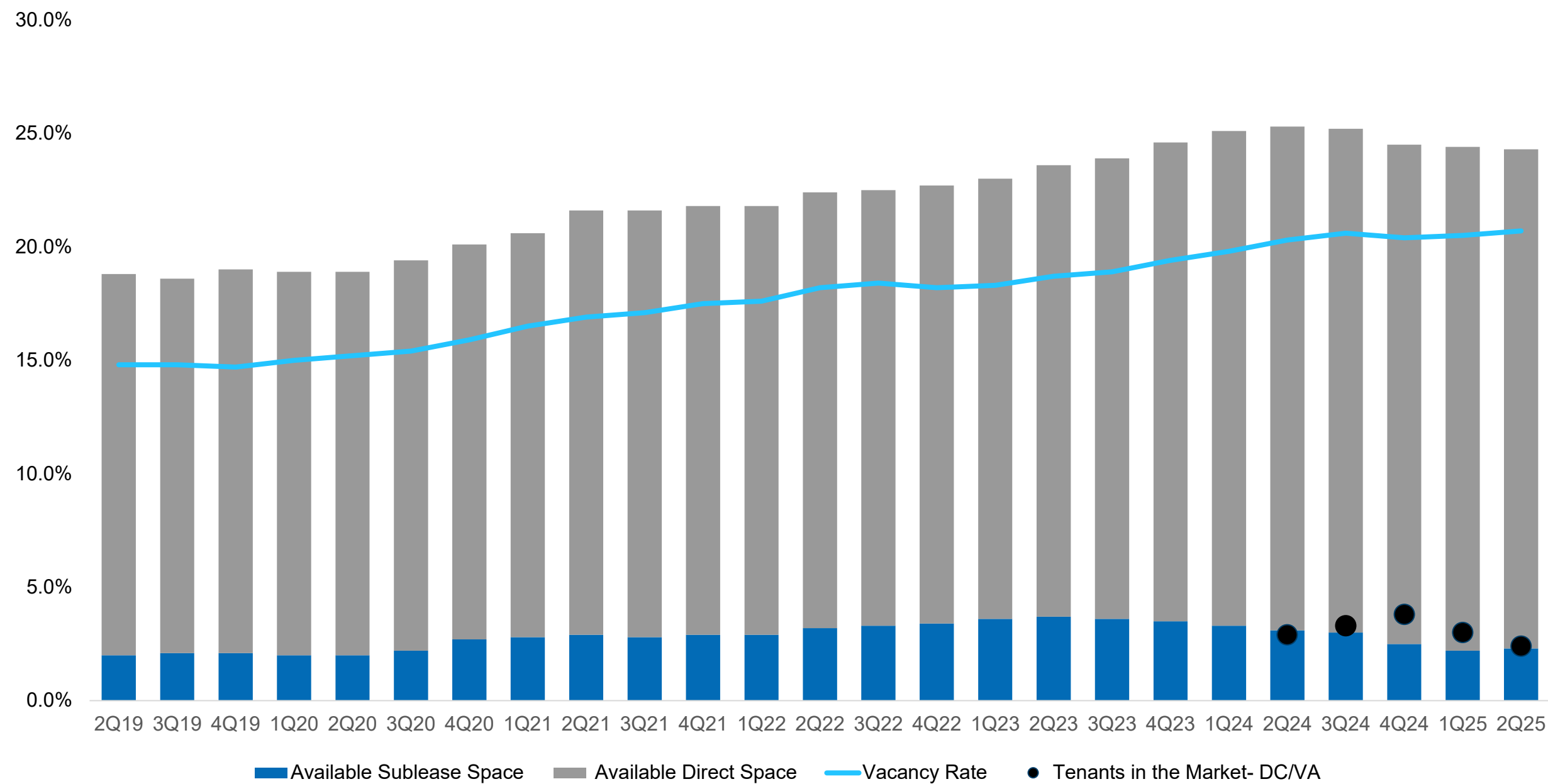


Source: Newmark Research, CoStar

Availability and Vacancy Remain Relatively Flat While Tenant Demand Drops

Available office space ended Q2 2025 at 24.3%, a 10 bps decrease quarter-over-quarter. Over the past six years, the direct availability rate has averaged 19.3% while the sublease availability rate has averaged 2.8%. The Q2 2025 availability rates of 22.0% for direct space and 2.3% 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

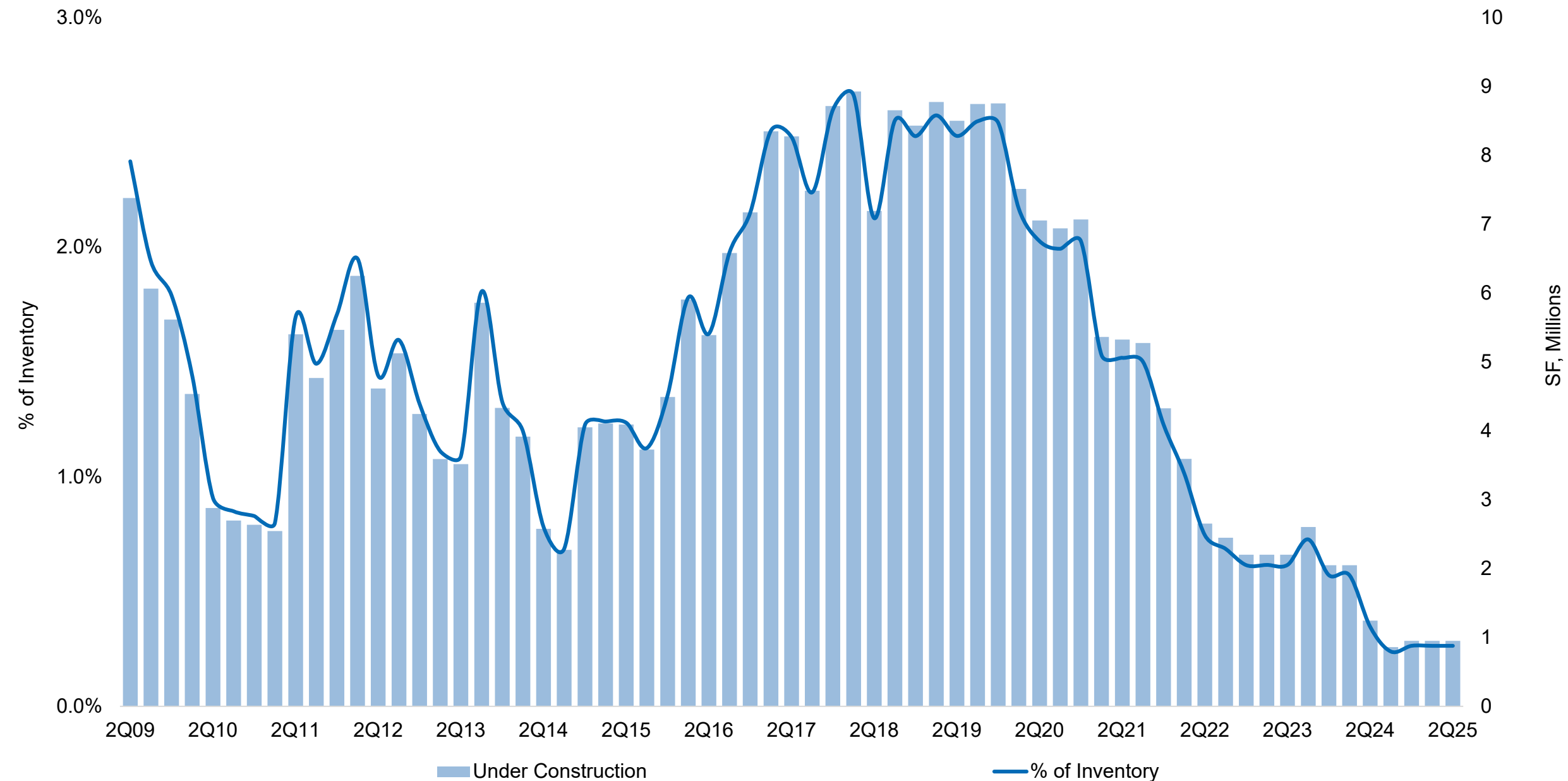


Source: Newmark Research

Deliveries Slow as Office Construction Pipeline Remains Limited

The Washington Metro area development pipeline remains historically low. There were no deliveries in Q2 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.

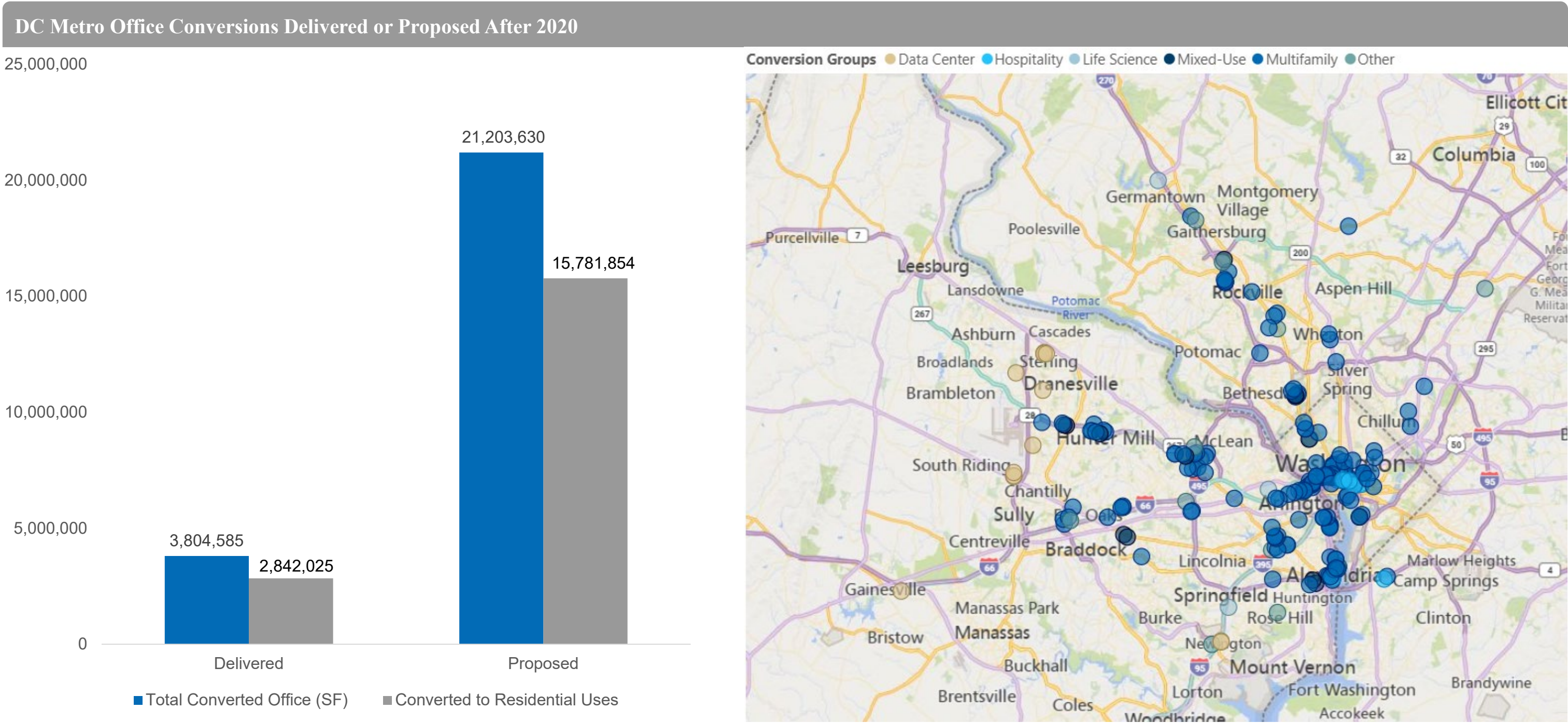
Office Under Construction and % of Inventory



Source: Newmark Research, CoStar

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

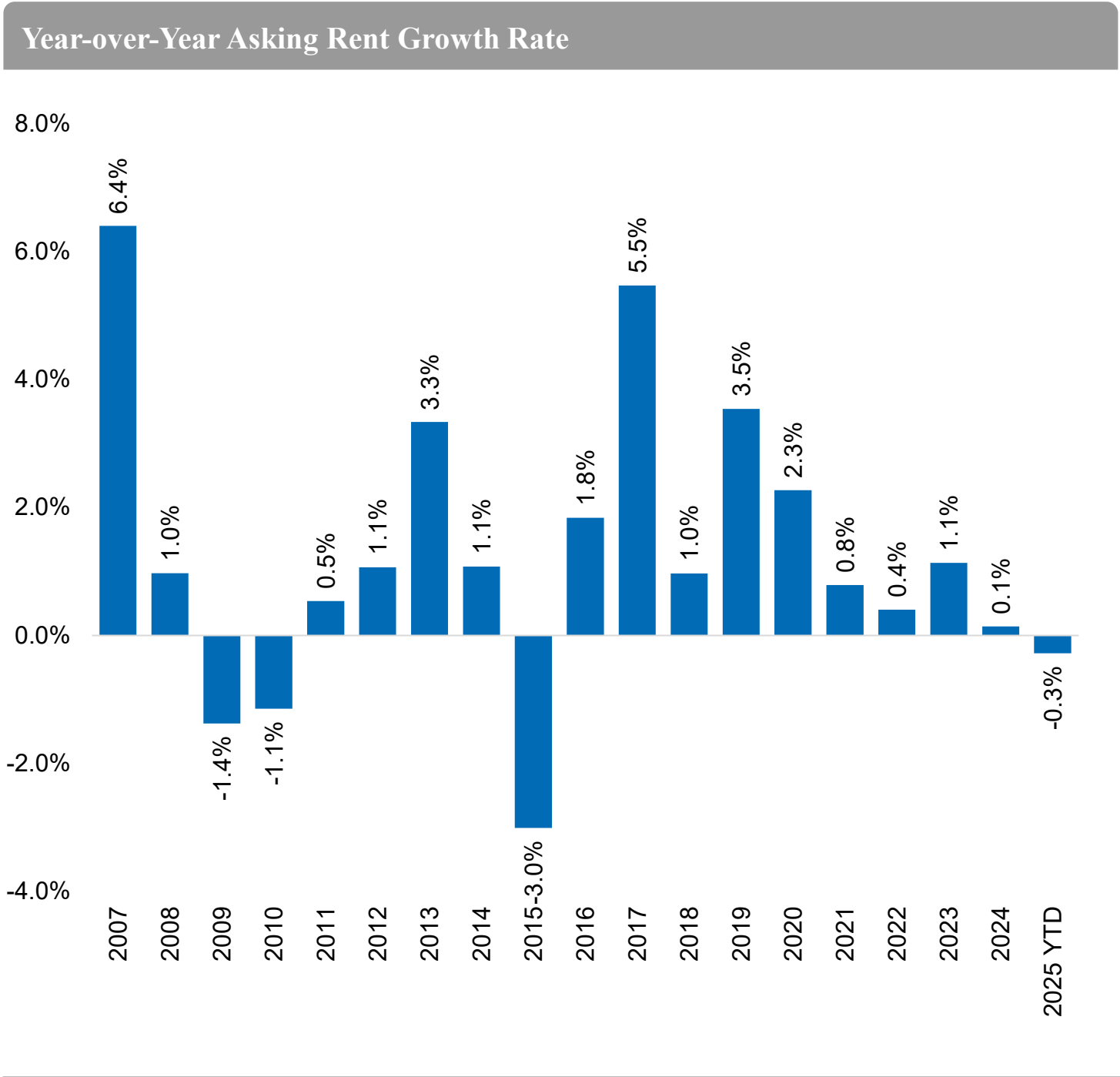
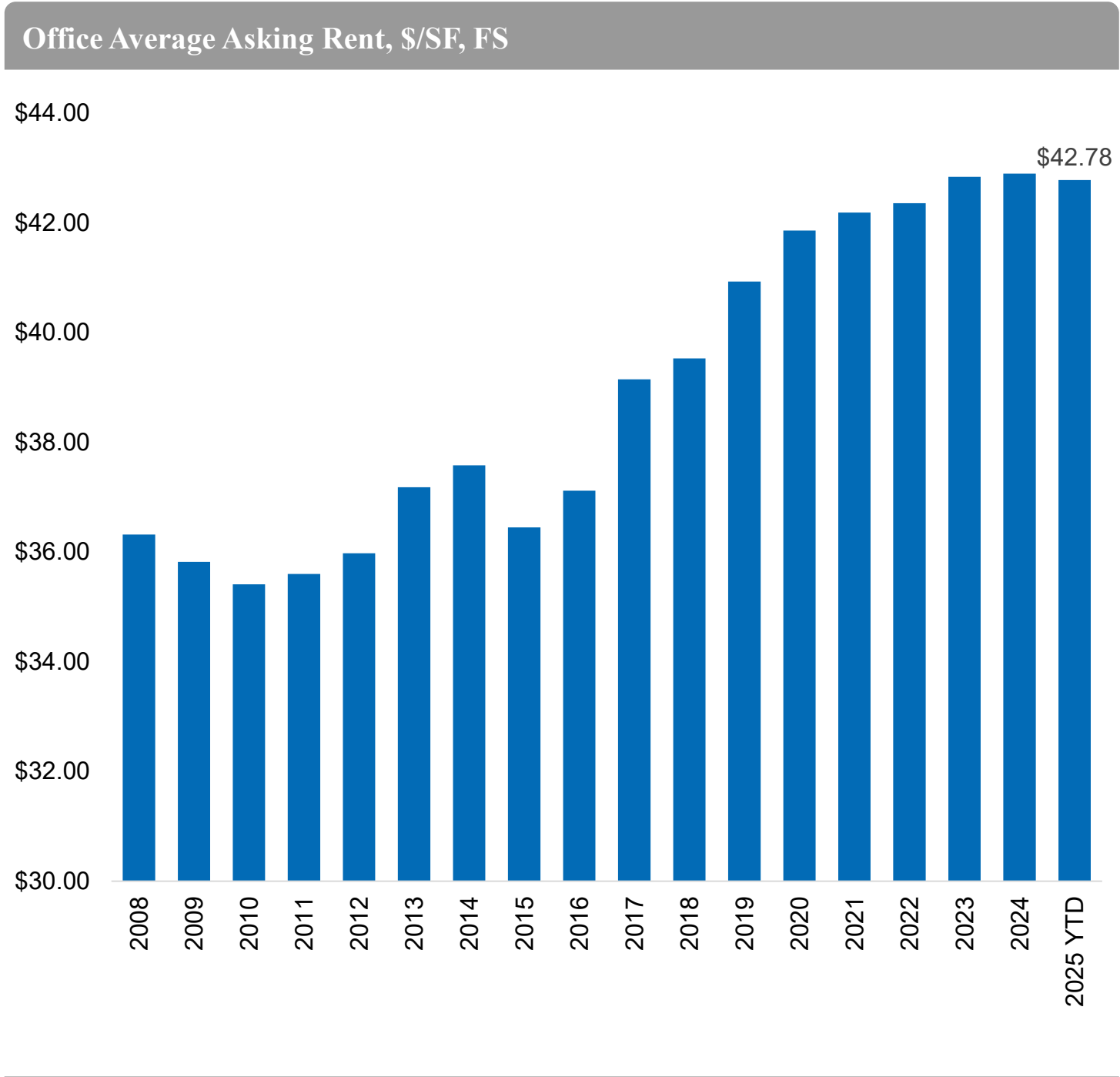
Since 2020, 3.8 MSF of office space has been converted to other uses, with an additional 21.2 MSF of office space proposed to convert. Historically, 2.8 MSF of the 3.8 MSF (74.7%) of office space that has been removed throughout the metro was converted into residential uses. Looking forward, approximately 15.8 MSF of the 21.2 MSF (74.4%) is proposed to be converted into residential uses.



Source: Newmark Research.

Rents Remain Relatively Stable to Begin 2025

Asking rents ended Q2 2025 at \$42.78 PSF, seeing a slight decrease of 0.3% during the first half of 2025. Overall, rent growth began decelerating in 2020 and has remained relatively flat since the end of 2023.

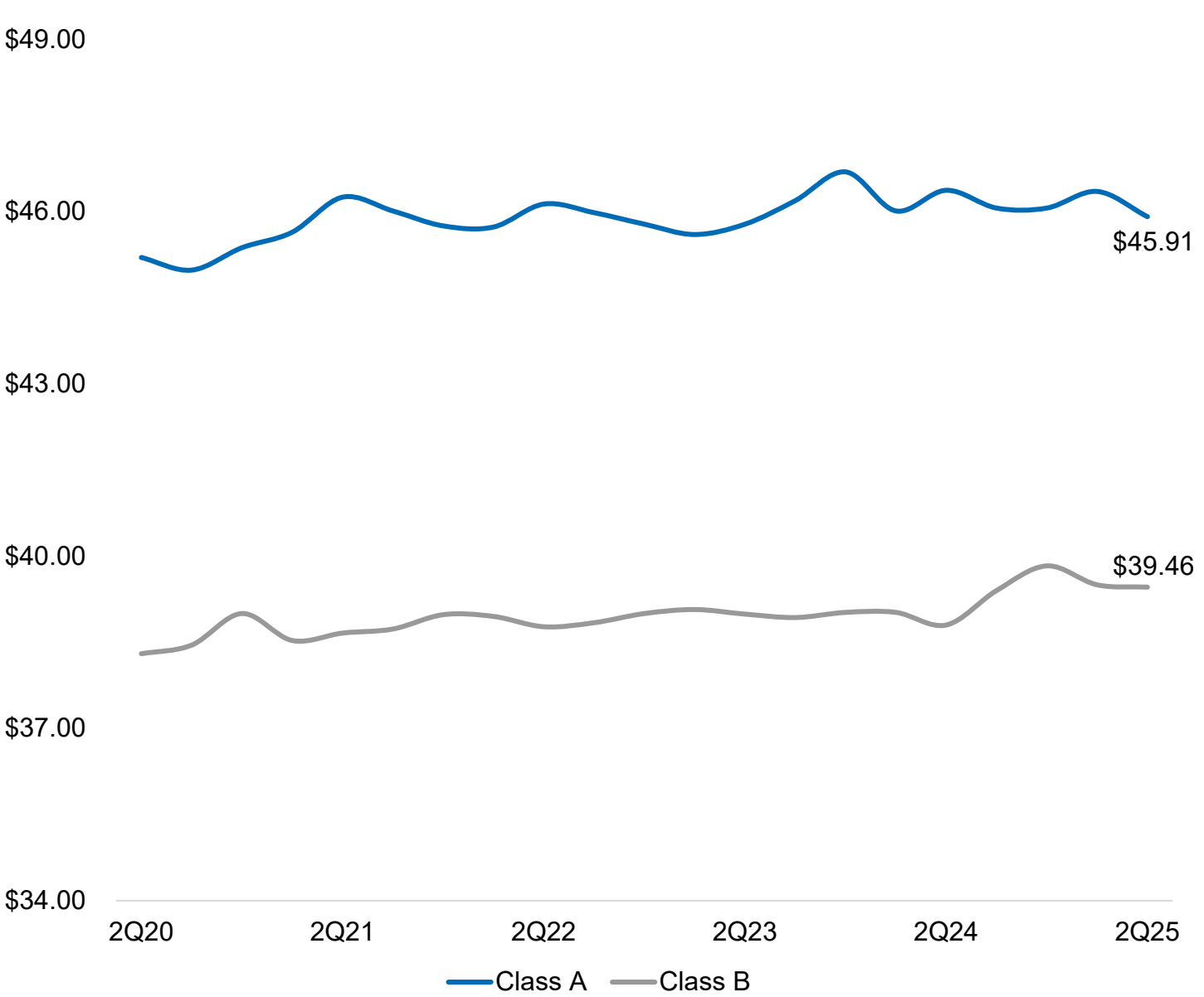


Source: Newmark Research

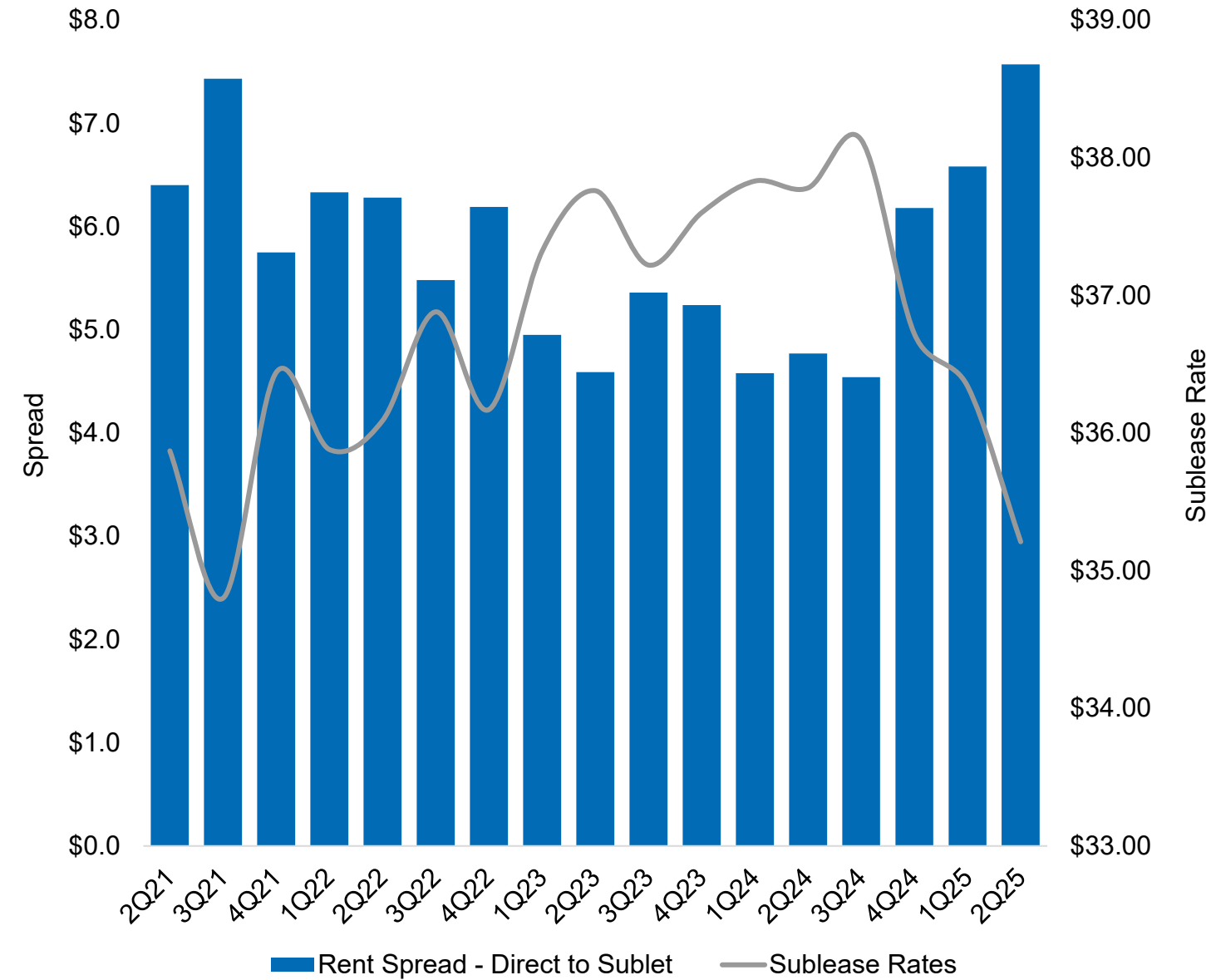
Class A and Class B Rents See Slight Decline During First Half of 2025

Class A asking rents decreased 0.3% during the first half of 2025, ending the period at \$45.91 PSF. Class B asking rents followed, ending the period at \$39.46 PSF, a decrease of 0.9%. Sublease rates continue to dip in the market, ending Q2 2025 at \$35.20 PSF, a decrease of 4.1% during the first half of 2025.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar



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