3Q24

Washington Metro Office Market Overview

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. However, there has been a significant increase in unemployment, narrowing the gap between the 3.7% regional unemployment rate and the 4.2% National unemployment Rate. The Regional 3.7% unemployment rate has increased above the 10-year average of 3.6%.
- Year-over-year, job gains were most pronounced in Other Services, posting a gain of 3.3%. Furthermore, the Manufacturing sector also experienced notable job gains, increasing 3.3% year-over-year. The office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced job losses over the past year, further impacting 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 2.6% higher than four years ago—just prior to the pandemic—and 6.2% higher than the pandemic-induced employment trough in May 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.
- There were two notable sales during Q3 2024. Potomac Tower at 1001 19th Street North in Arlington which sold from Brookfield Asset Management to Venture Global LNG for approximately $143 Million, or $592 PSF at a 7.3% cap rate. Venture Global LNG occupies roughly 40% of the fully occupied 240,000 SF property and it will remain multi-tenanted. The other notable sale of the quarter was 2000 K Street, NW in the District's CBD. The 233,000 SF property was sold from Tishman Speyer to Spear Street Capital for approximately $140 million, or $601 PSF at an 8.0% cap rate. The sale of 2000 K Street shows the continued demand for well-leased high-end space in the CBD, and marks Spear Street Capital's second major investment in the District following their 47% stake in the Mills building earlier this year.

Leasing Market Fundamentals

- Net absorption for the region totaled negative 800,000 SF during Q3 2024, with The District and Northern Virginia experiencing negative net absorption while Suburban Maryland countered with positive net absorption.
- Overall vacancy increased slightly to 21.4%, up 30 basis points over the quarter and 170 basis points year-over-year. Availability also expanded, ending Q3 2024 at 26.2%, unchanged from last quarter and 180 basis points year-over-year.
- Major second-quarter transactions were spread throughout the metro, with the top two transactions occurring in the District with the Voice of America lease and Fannie Mae's lease renewal/contraction, and the third largest transaction occurring in Northern Virginia with the Bechtel Corporation lease renewal.
- After three deliveries during the quarter totaling 420,000 SF, the office construction pipeline ended Q3 2024 at 860,000 SF.

Outlook

- A strong and resilient labor market, coupled with persistent inflationary concerns, is contributing to an uncertain macroeconomic outlook in the near-term.
- Rents have taken a step back so far in 2024 after seeing slight growth in 2023. There is optimism in future rent growth, however, due to a lack of supply-side pressure with a limited development pipeline throughout the market.
- Fewer landlords have capital for concessions, which have been a major driver in attracting tenants and capturing net positive absorption over the past several years. The pool of landlords that can perform, or pay for tenant improvement, is shrinking. There are fewer owners offering trophy office supply, fostering an unusual landlord-favorable environment for the most quality space. Meanwhile, conditions continue to soften in class B and C assets.

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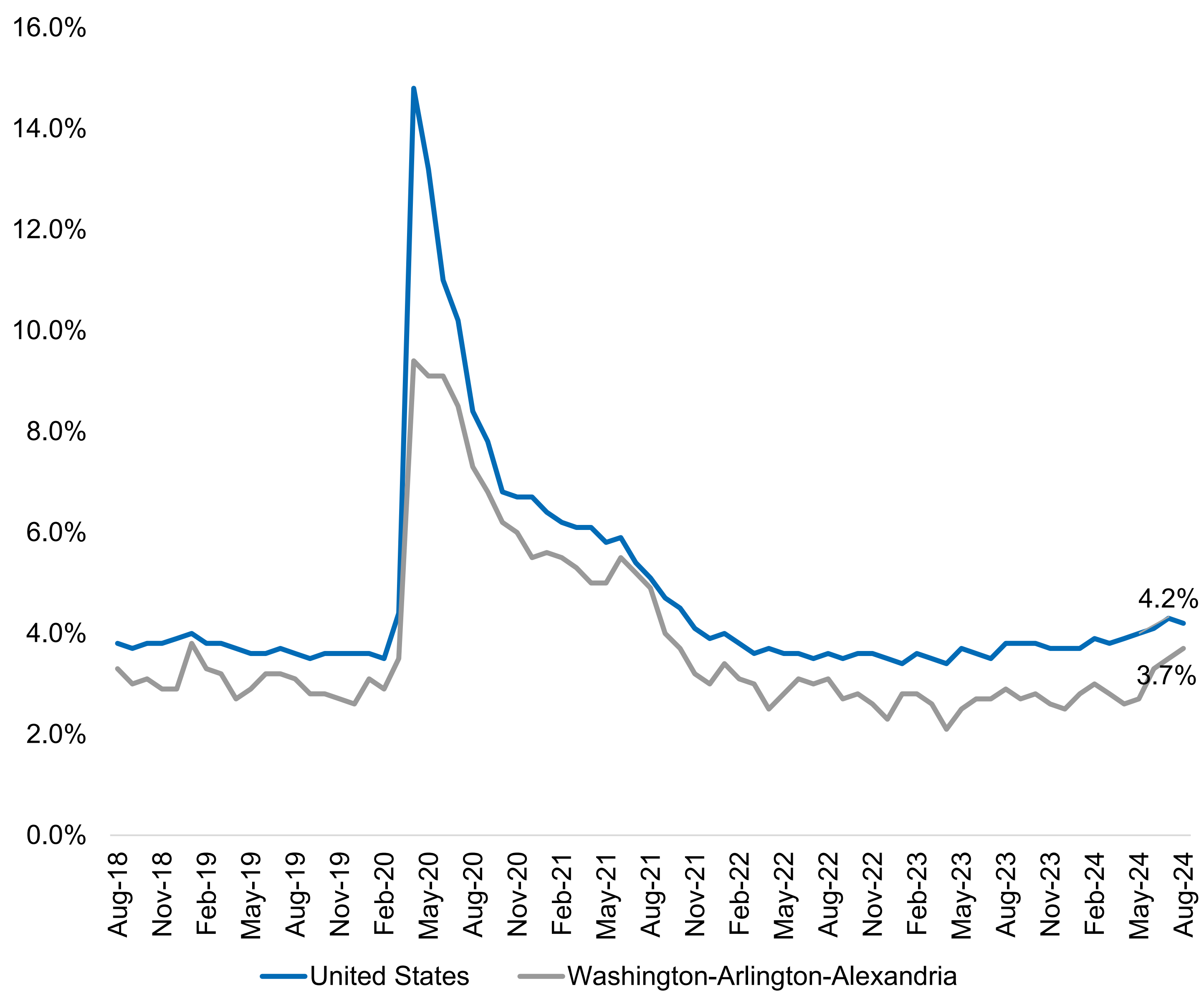
Economy

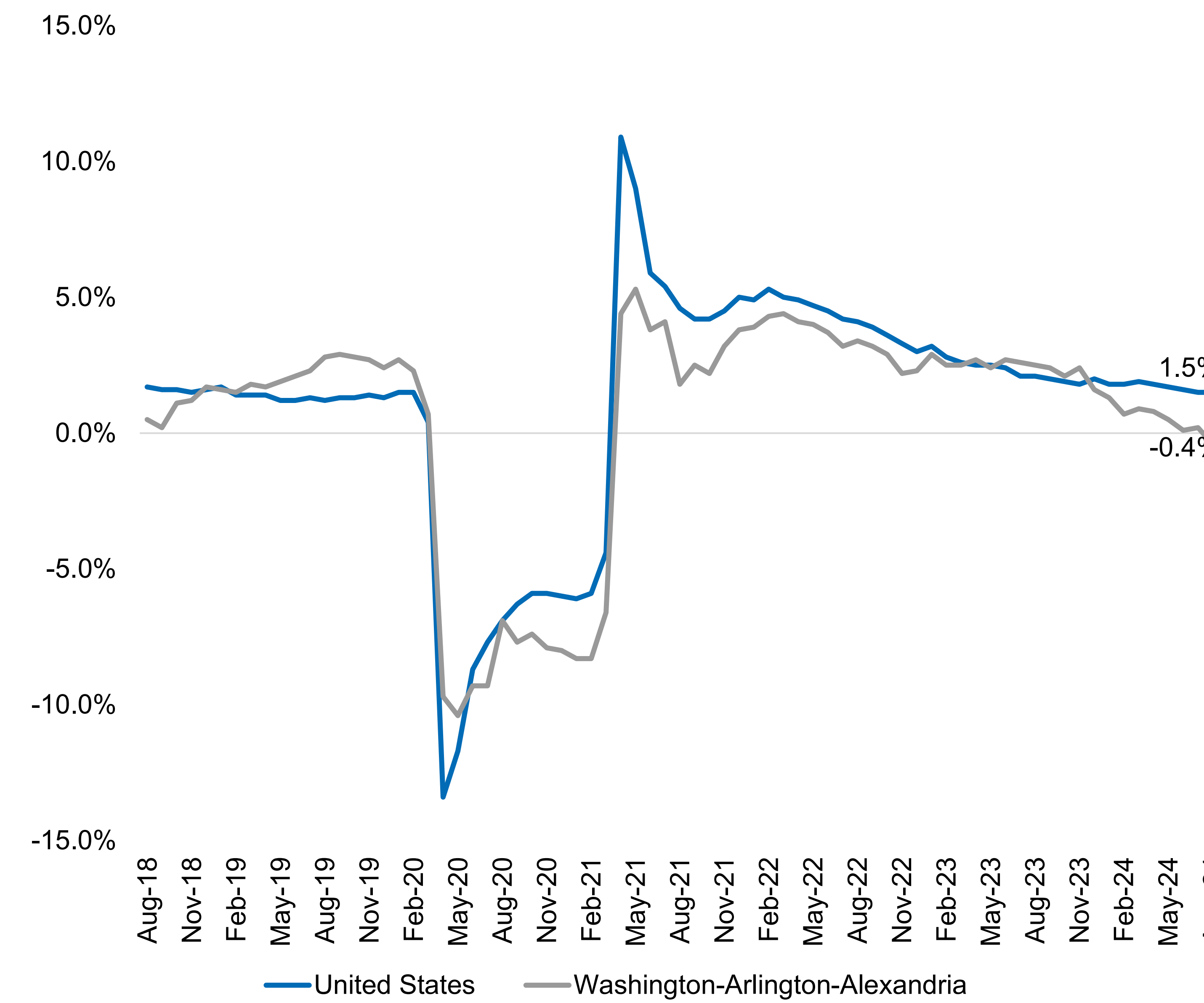
Metro Employment Job Growth Enters Negative Territory

The region's labor market is very tight, with unemployment 50 basis points below the national average. However, it is showing signs of loosening as the spread between the regional and national labor market decreasing 70 basis points quarter-over-quarter. National job growth has begun to slow, but nonetheless remains positive. Regional job growth has dipped to -0.4% year-over-year.

Unemployment Rate, Non-Seasonally Adjusted



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

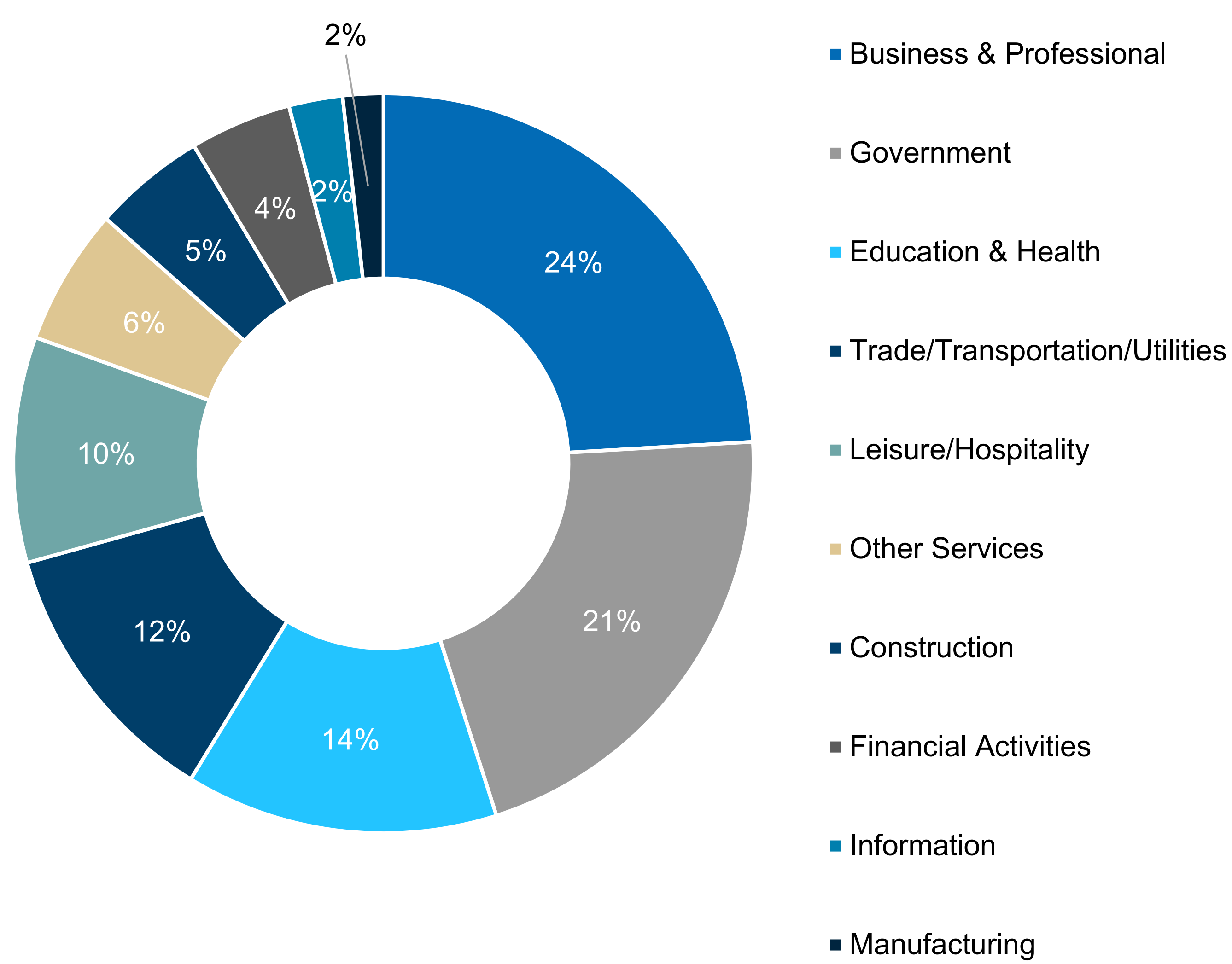


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

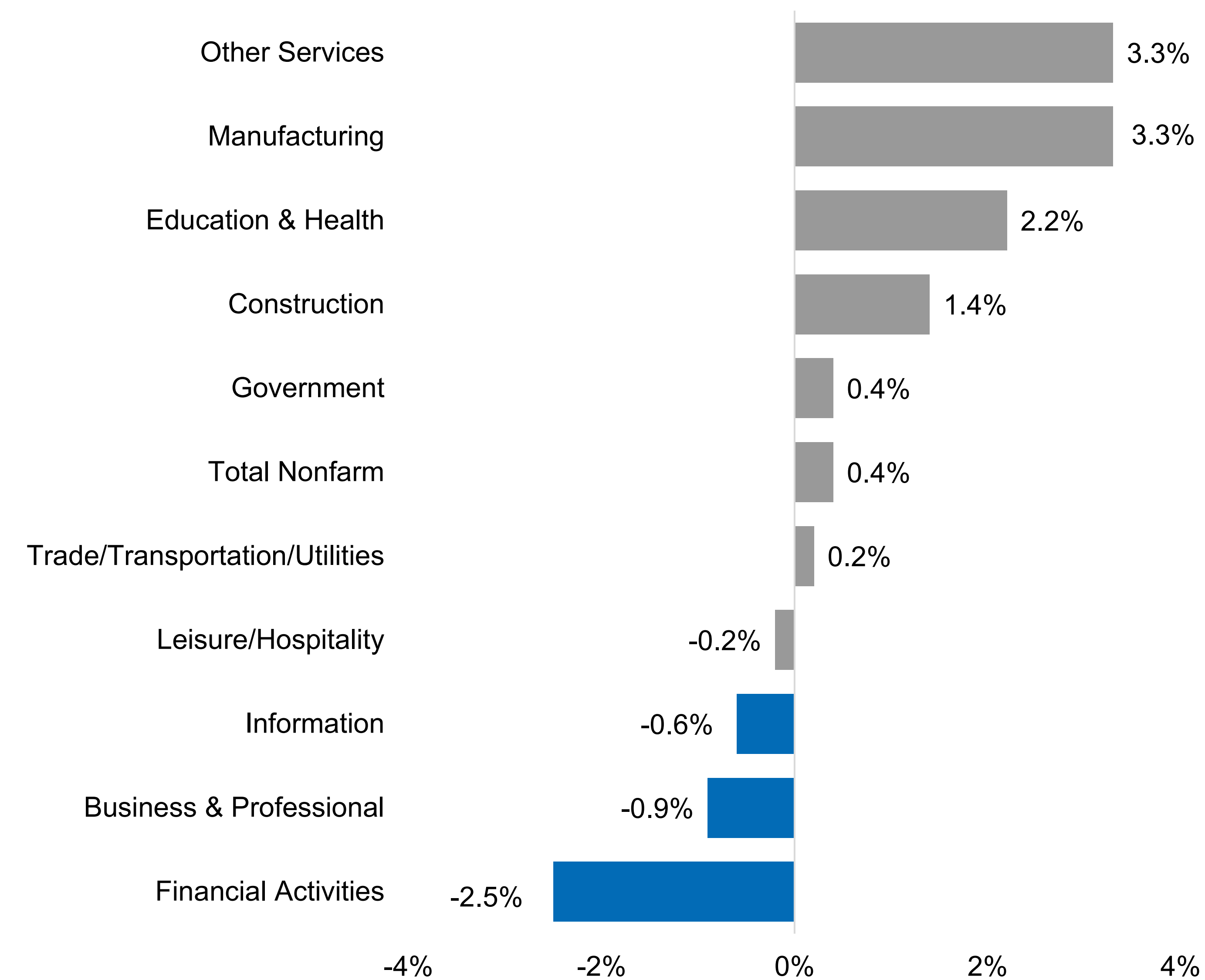
Job Growth Driven by Other Services, Manufacturing, and Education & Health

Education, Health, and Government propped up job growth in the region, leading to total nonfarm employment growth of 0.9%. Despite this, office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced some job losses over the past year, contributing to declining demand for office space.

Employment by Industry, August 2024



Employment Growth by Industry, 12-Month % Change, August 2024

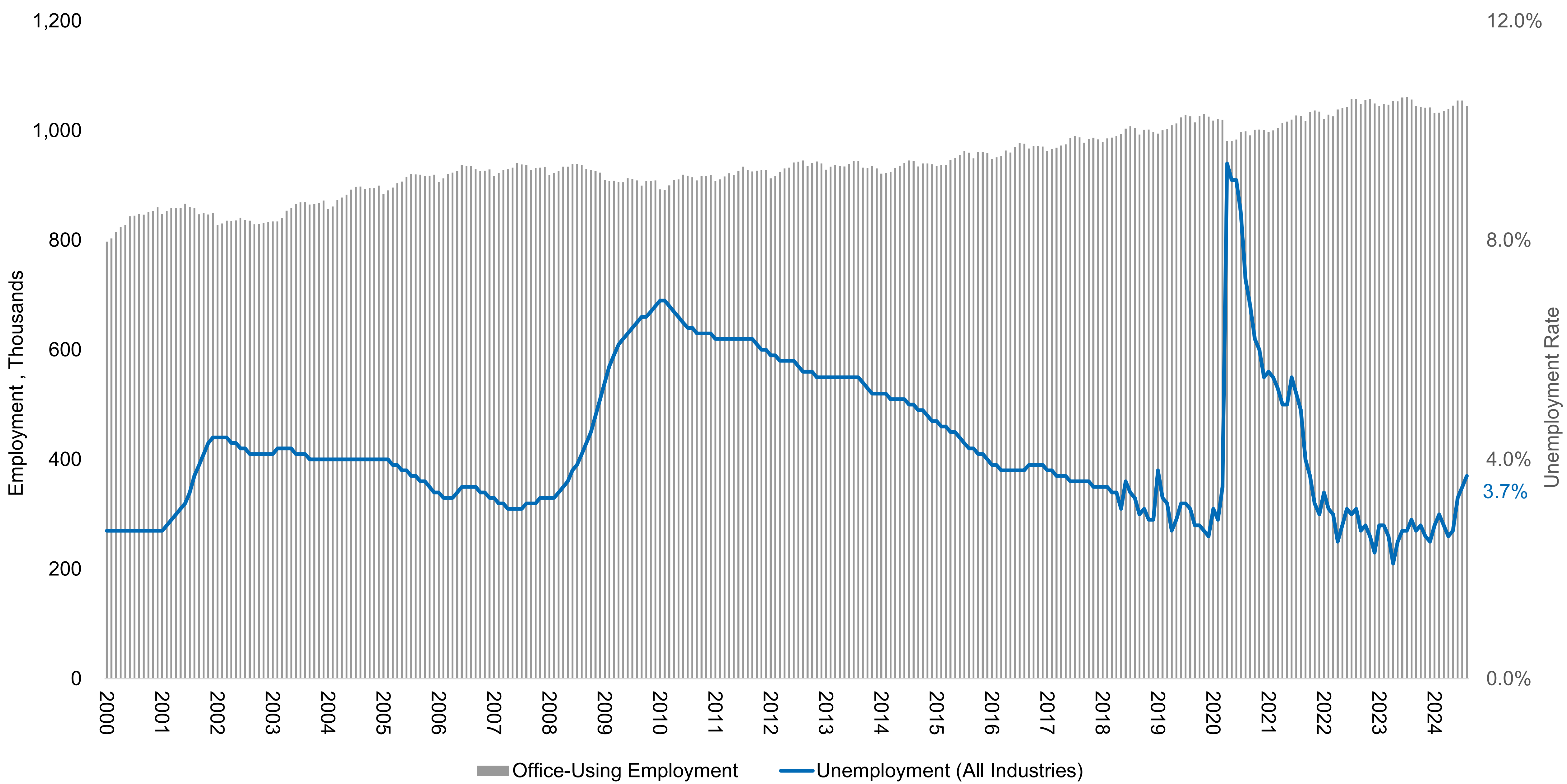


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

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 2.6% higher than five years ago—just before the pandemic—and 6.2% higher than the pandemic-induced employment trough in May 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Alexandria-Arlington
Note: August 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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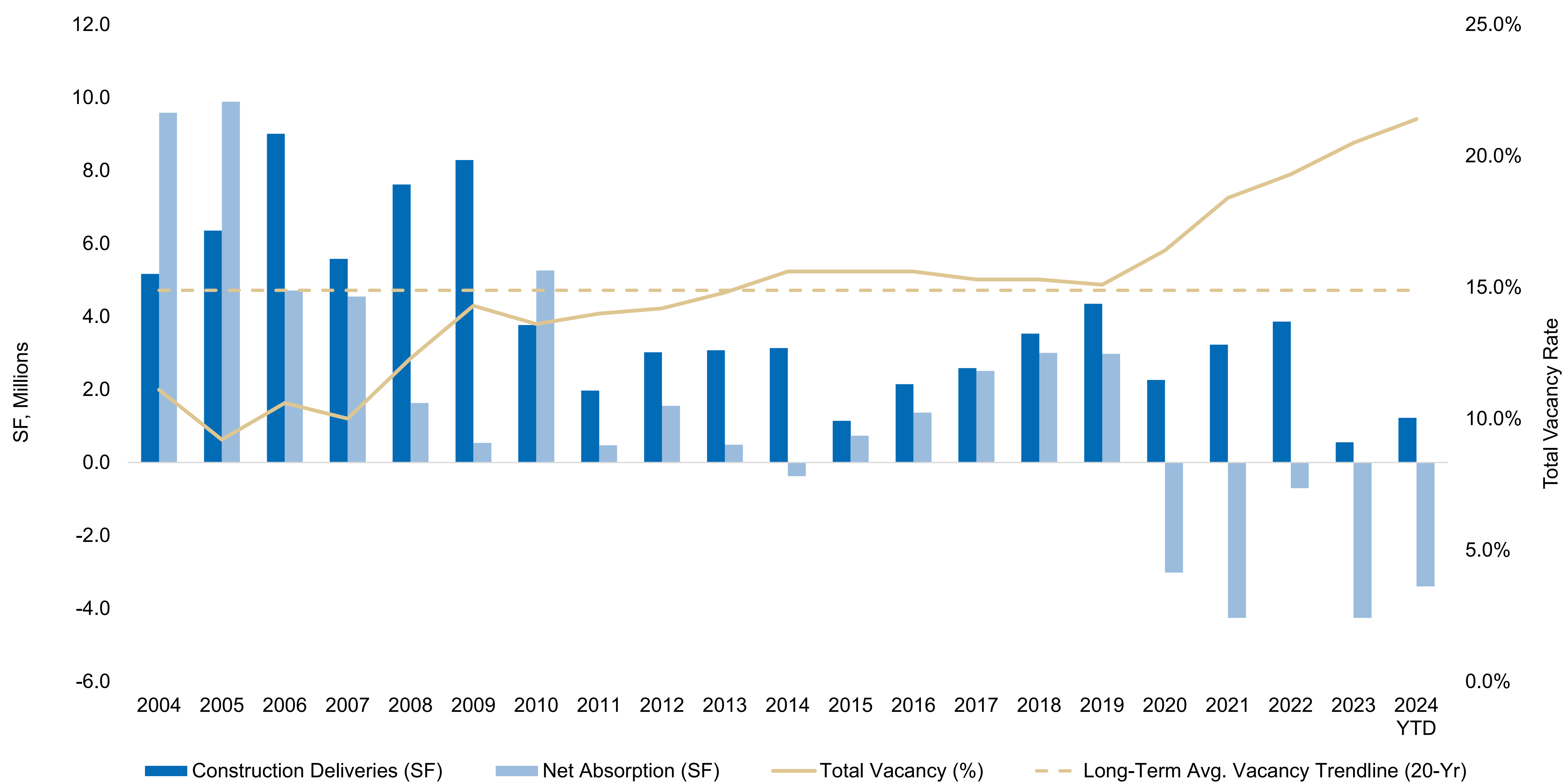
Leasing Market Fundamentals

Market Continues to See Expansion in Vacancy and Slowdown in Development

The metro area vacancy rate rose 30 basis points over the quarter to end Q3 2024 at 21.4%. This occurred after the market experienced approximately 800,000 SF of negative net absorption during the quarter. 420,000 SF delivered in Q3 2024, below the 20-year average of almost 1.0 MSF delivered per quarter. A slowdown in office deliveries and lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

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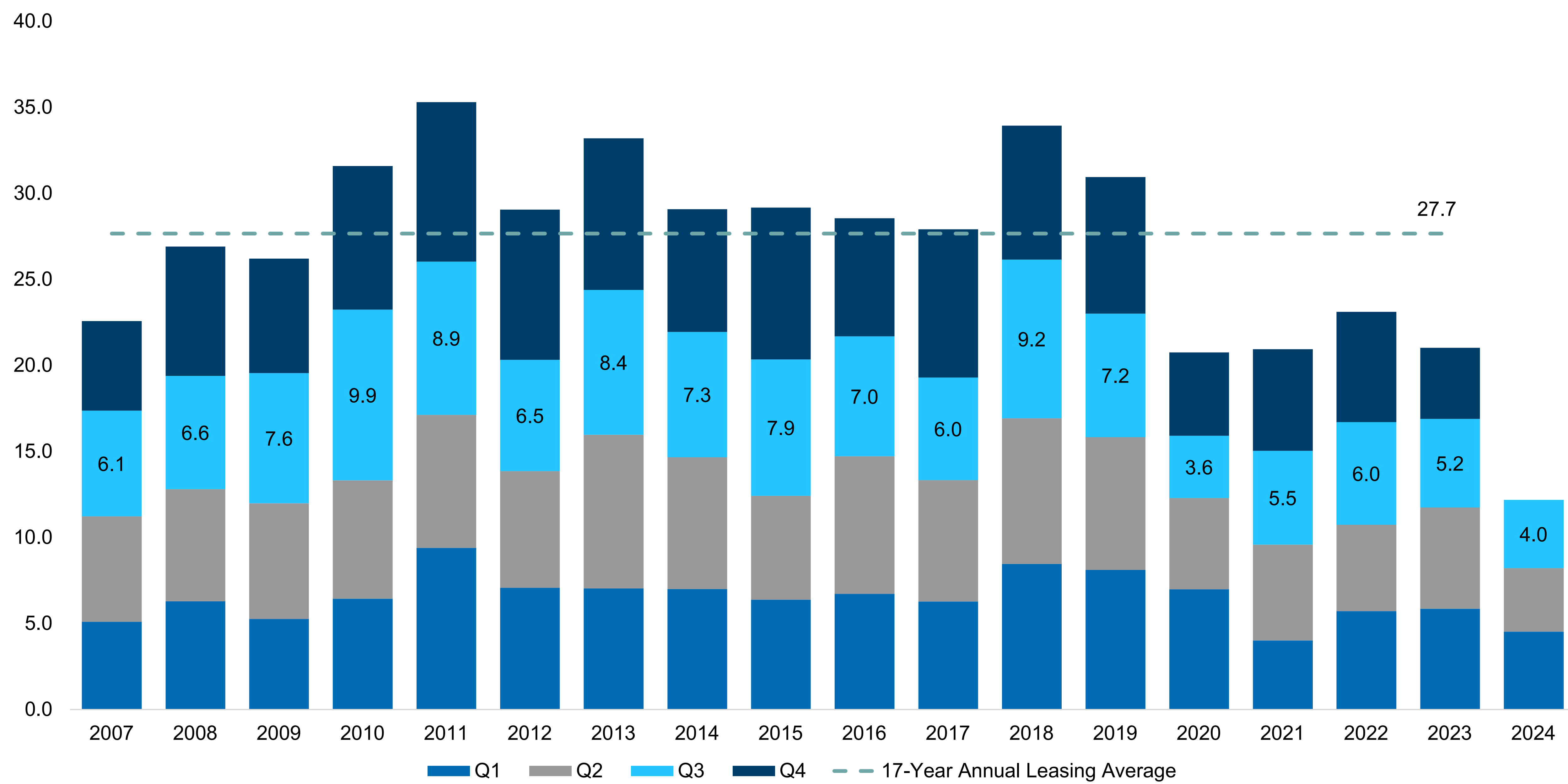
Leasing Activity Has Slowed

Leasing activity has slowed since 2020, although it picked up the pace slightly during 2022. During Q3 2024, the market saw 4.0 MSF of leasing activity, significantly lower than the same period in 2023 and is on track to be well below the annual average of 27.7 MSF. Lease Renewals are the primary drivers for leasing activity for larger spaces, while smaller spec suites are the primary drivers for new leases.

Total Leasing Activity (msf)

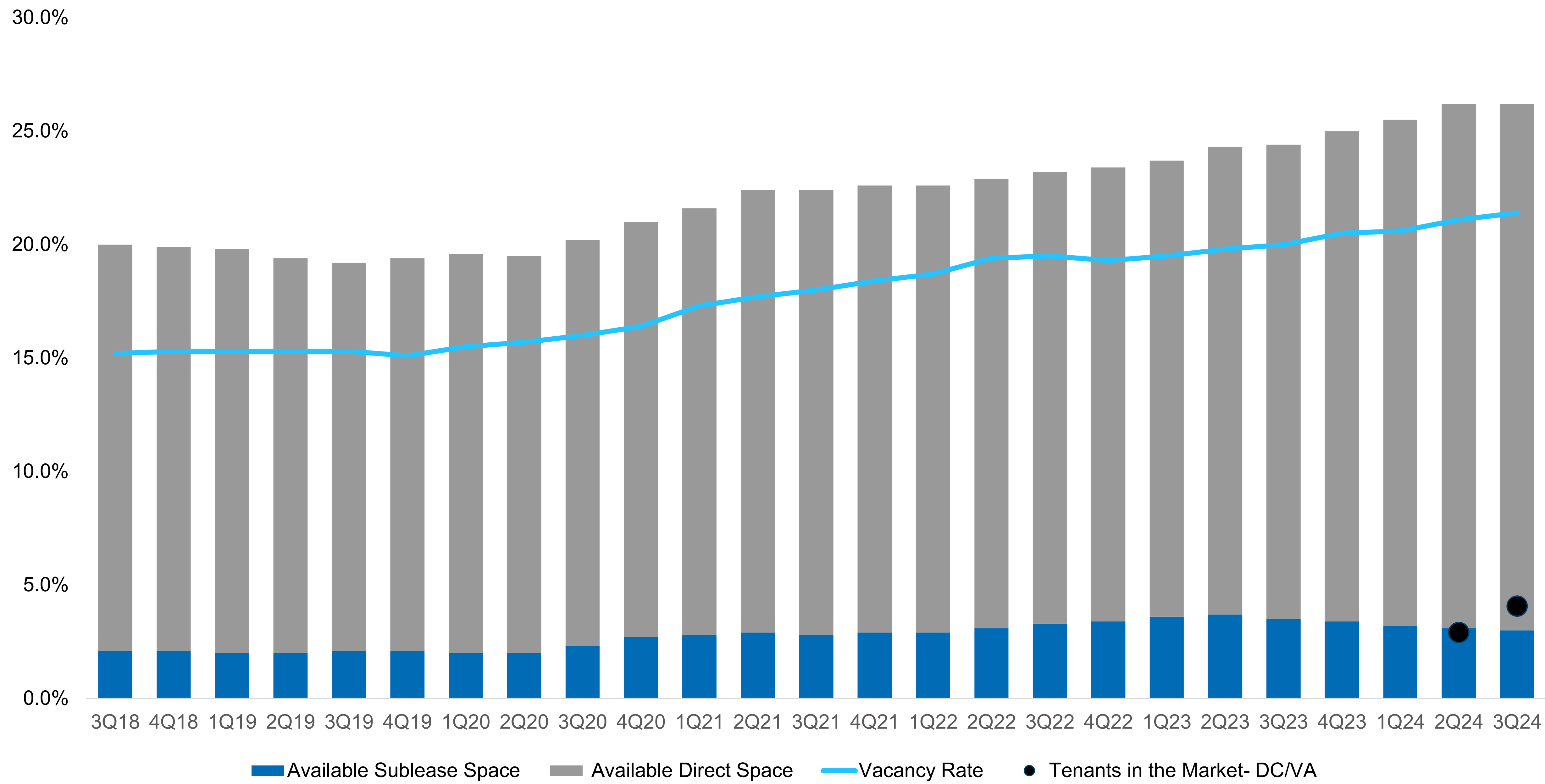


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space ended Q3 2024 at historical highs, with the market seeing 26.2% of space available. Over the past six years, the direct availability rate has averaged 19.4% while the sublease availability rate has averaged 2.8%. The Q3 2024 availability rates of 23.2% for direct space and 3.0% for sublease space are well above the long-term averages. However, the rate at which available space is coming to market has begun to decelerate .

Available Space and Tenant Demand as Percent of Overall Market

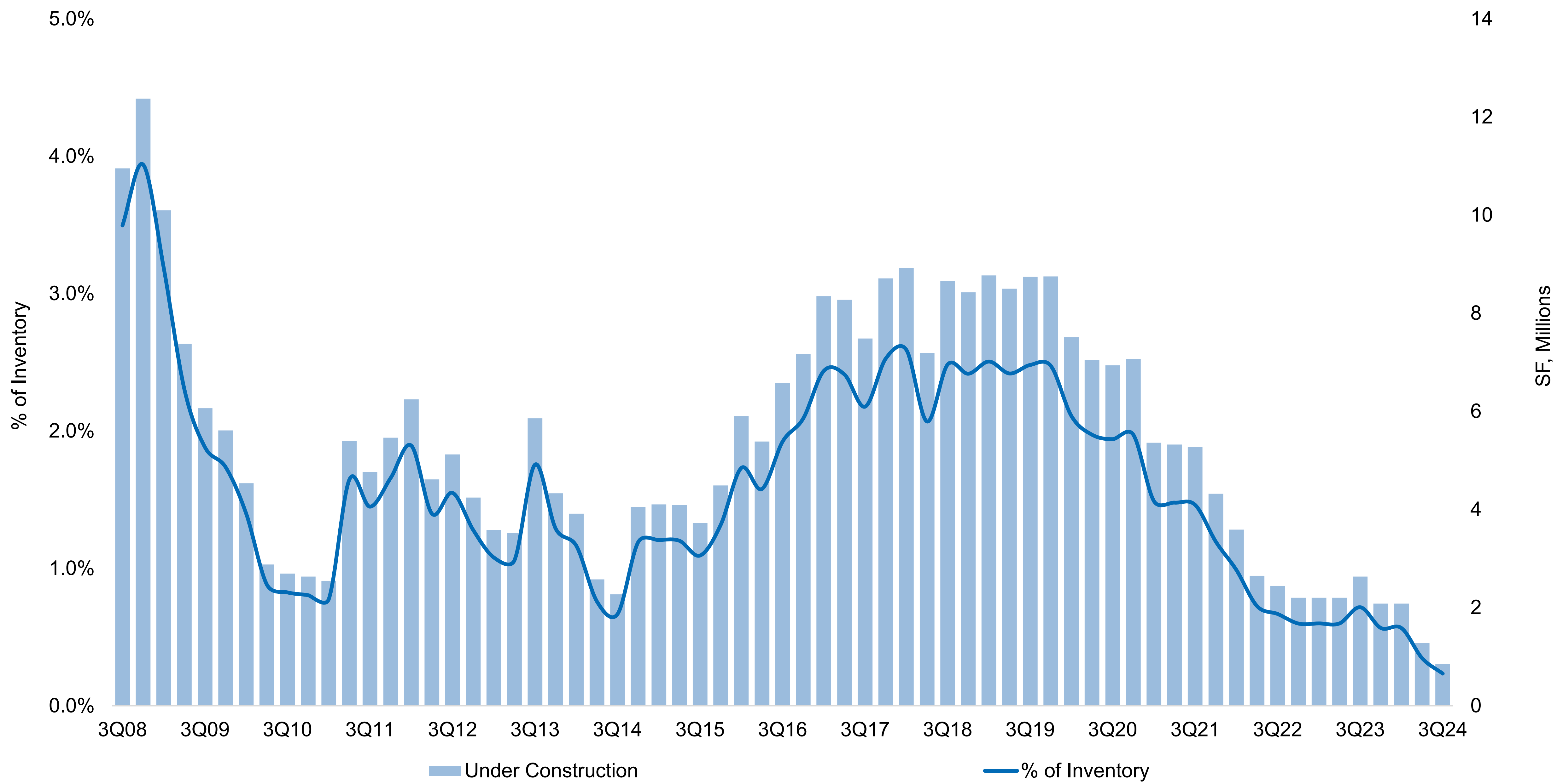


Source: Newmark Research

Deliveries Slow as Office Construction Pipeline Tapers

The Washington Metro area development pipeline remains historically low, with no new projects breaking ground. There are currently 3 office properties under construction in the region, well below the historical average of 21 properties under construction.

Office Under Construction and % of Inventory

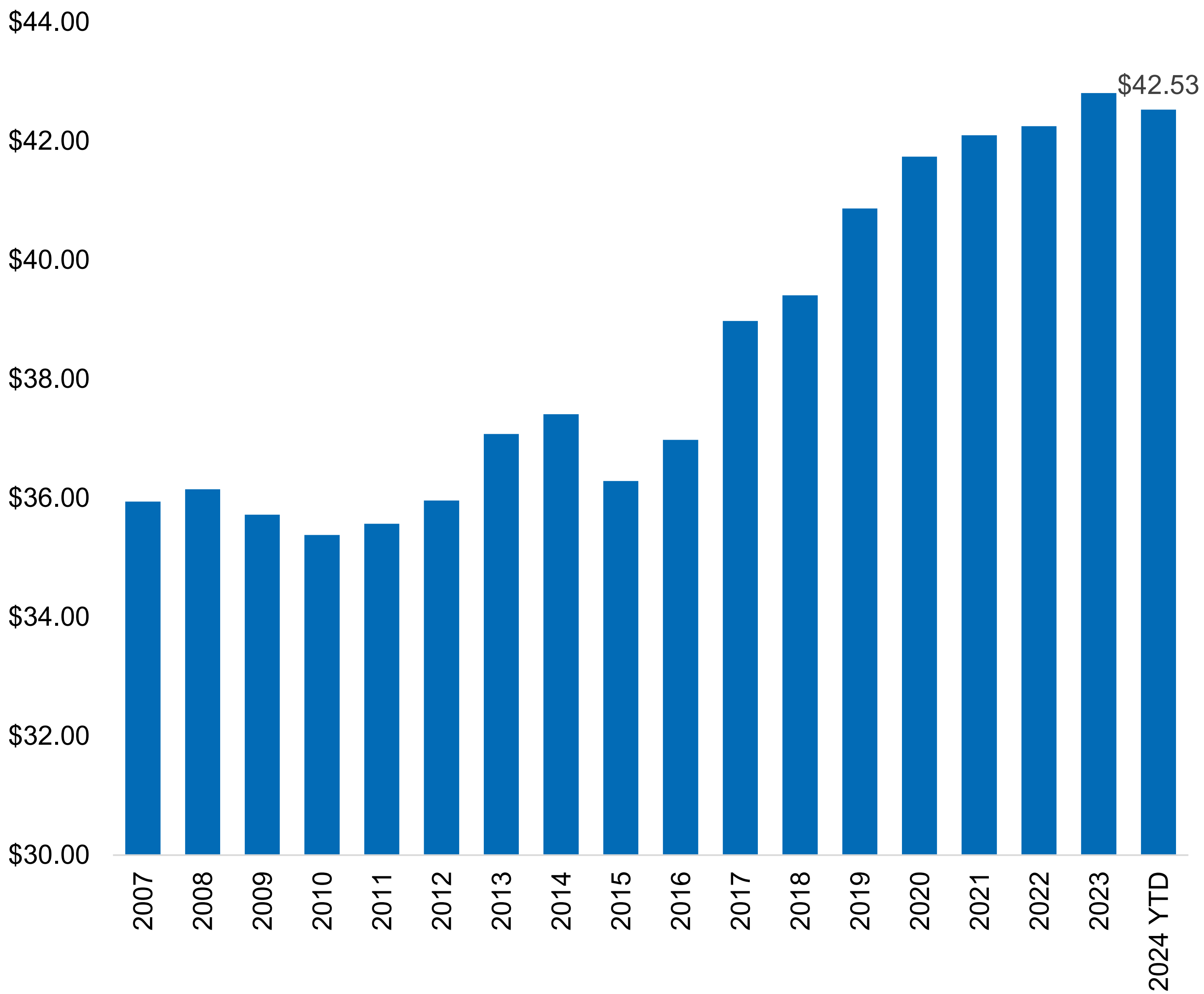


Source: Newmark Research, CoStar

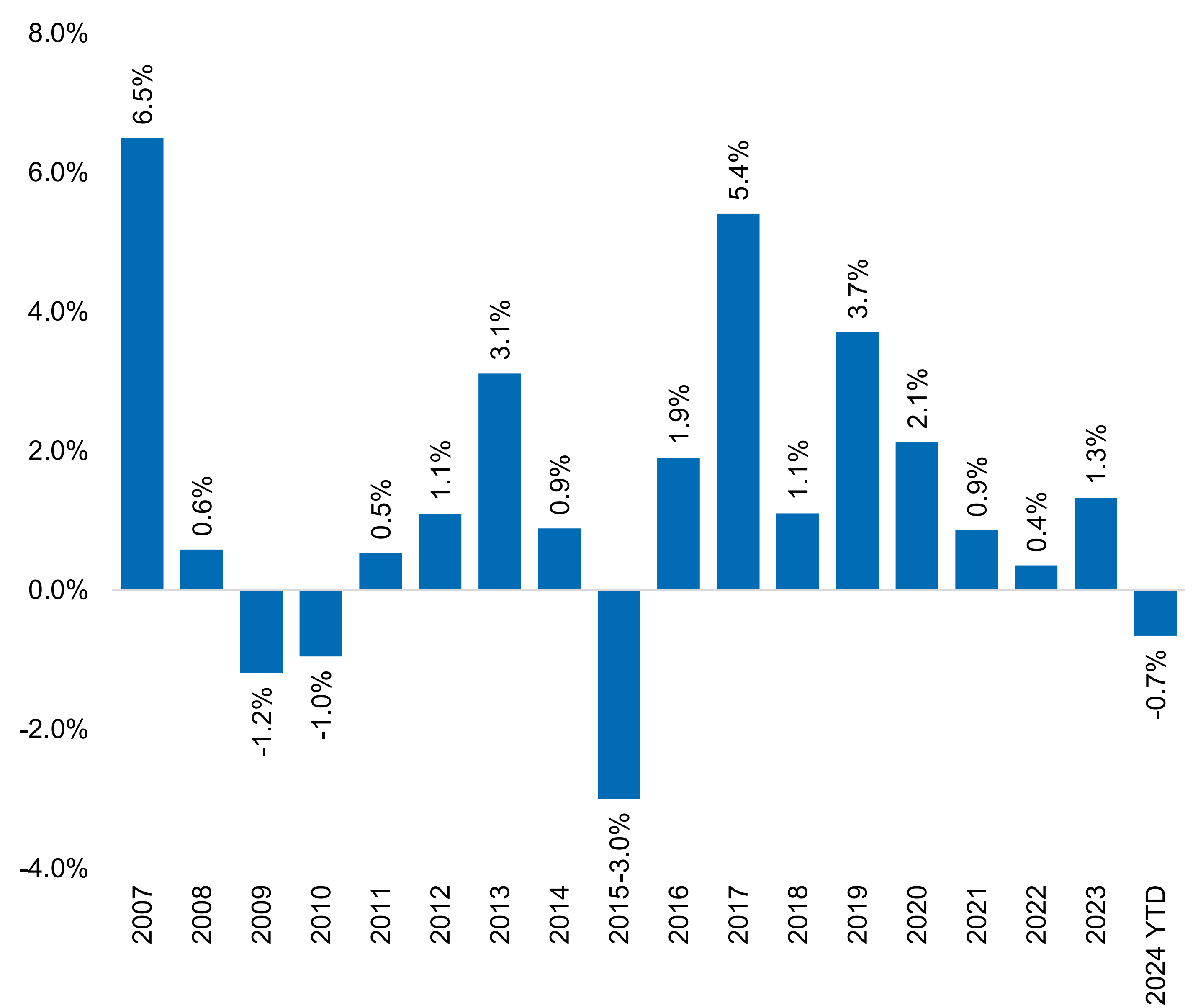
Rents Remain Depressed in 2024

Asking rents ended Q3 2024 at $42.53, increasing slightly quarter-over-quarter however decreasing 0.7% since the end of 2023. Class A and class C rents have driven this decline, decreasing 1.2% and 1.5% respectively since the end of 2023.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

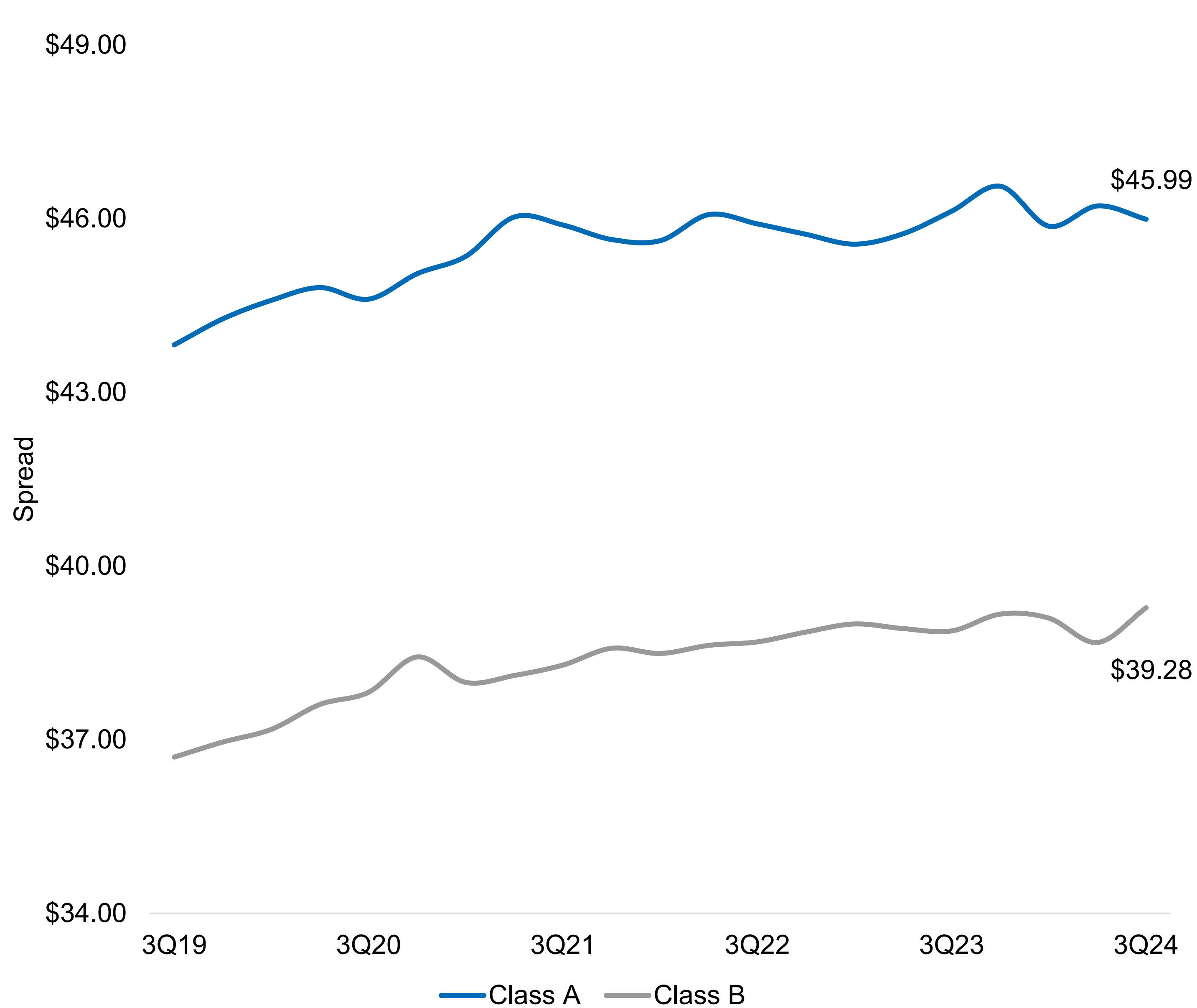


Source: Newmark Research

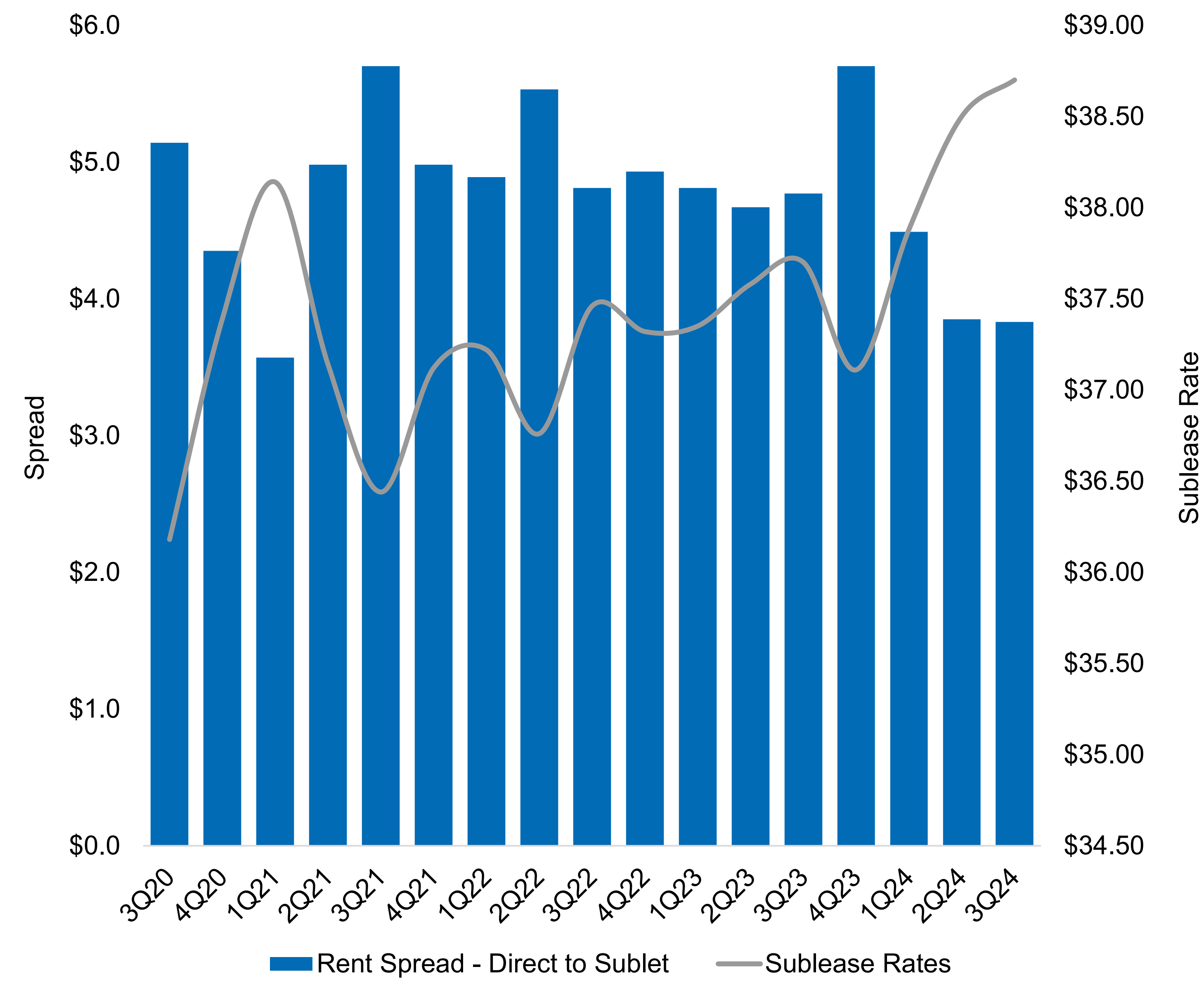
Class B is the Only Class with Positive Asking Rent Growth Since 2023

Class A asking rents decreased 1.2% during Q3 2024, ending the quarter at $45.99 PSF, while Class B asking rents increased 0.3%, ending the quarter at $39.28. The resilience in asking rents has begun to erode as the market prices in shifting demand.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Spread Throughout the Market

Despite negative absorption, leasing activity continues, albeit at a slower pace. Major third-quarter transactions were spread throughout the District and Virginia, with the two largest deals occurring in the District, and the third-largest deal occurring in Northern Virginia.

Notable 3Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Voice of America	1875 Pennsylvania Ave, NW	CBD	Direct Lease	350,000
Fannie Mae	1100 15th Street, NW	CBD	Lease Renewal/Contraction	340,000
Bechtel Corporation	12011 Sunset Hills Road	Reston	Lease Renewal	289,380
Court Services & Offender Supervision Agency	501 3rd Street, NW	Capitol Hill	Direct Lease	198,561
CACI	14370 Newbrook Drive	Rt. 28 South	Lease Renewal	187,191

Source: Newmark Research

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Market Statistics

Washington Metro Office Market Overview

Market Statistics By Class

	Total Inventory (SF)	Overall Vacancy	Overall Availability	3Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Washington Metro	**366,938,427**	**21.4%**	**26.2%**	**-798,264**	**-3,392,583**	**419,741**	**1,222,932**	**859,291**	**$42.53**
Class A	225,389,017	21.0%	26.5%	-764,301	-2,068,237	419,741	1,222,932	859,291	$45.99
Class B	109,361,989	23.5%	27.7%	-48,116	-814,600	0	0	0	$39.28
Class C	32,187,421	17.1%	18.4%	14,153	-509,746	0	0	0	$29.98
Washington D.C.	**130,095,694**	**20.2%**	**26.3%**	**-107,571**	**-422,917**	**0**	**336,289**	**399,617**	**$55.98**
Class A	81,127,217	18.3%	24.5%	-167,588	-244,396	0	336,289	399,617	$61.66
Class B	44,863,040	24.3%	30.7%	112,981	-79,074	0	0	0	$49.46
Class C	4,105,437	14.2%	15.1%	-52,964	-99,447	0	0	0	$40.17
Northern Virginia	**162,897,751**	**23.1%**	**26.9%**	**-714,250**	**-2,229,129**	**385,241**	**852,143**	**222,674**	**$35.47**
Class A	102,248,511	23.1%	27.9%	-612,045	-1,229,977	385,241	852,143	222,674	$38.61
Class B	41,975,664	24.9%	27.2%	-151,680	-706,534	0	0	0	$31.28
Class C	18,673,576	19.1%	20.6%	49,475	-292,618	0	0	0	$29.82
Suburban Maryland	**73,944,982**	**19.7%**	**24.4%**	**23,557**	**-740,537**	**0**	**0**	**237,000**	**$32.06**
Class A	42,013,289	21.2%	27.3%	15,332	-593,864	0	0	237,000	$34.31
Class B	22,523,285	19.2%	22.8%	-9,417	-28,992	0	0	0	$28.58
Class C	9,408,408	14.3%	15.5%	17,642	-117,681	0	0	0	$25.76

Source: Newmark Research, CoStar

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