3Q25

Washington Metro Office Market Overview

Market Observations

Economy

- The region's labor market has slowed in recent months due to shifting federal government policy. August's 4.3% unemployment rate exceeds the region's ten-year historical average of 3.8%, expanding 30 bps quarter-over-quarter and 90 bps year-over-year. The Washington, DC metro's unemployment rate reached equilibrium with the national rate.
- Construction alongside Education & Health propped up job growth in the region with an 8.4% 12-month increase and a 2.4% 12-month increase, respectively, though total nonfarm employment growth was negative at -0.3%. The Leisure/Hospitality and Financial Activities sector also experienced 12-month growth of 0.6%, while the Information and Business & Professional sectors saw 12-month declines of 1.1% and 2.3%, respectively.
- The number of office jobs exceeds pre-pandemic levels but are lower year-over-year. Office-using jobs in the region are currently 4.2% higher than five years ago, but 1.8% lower than in August 2024, due in part to DOGE actions and their impact on the regional workforce.

Major Transactions

- A notable deal from the third quarter of 2025 was the sale of Willow Oaks Corporate Center, located at 8260 and 8280 Willow Oaks Corporate Drive within the Merrifield submarket. Willow Oaks 1, a 200,000-square-foot building and Willow Oaks 2, a 205,000-square-foot building, were sold by Bridge Investment Group to Stockbridge Capital Partners for a combined $70.0 million, or $173/SF.
- 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.

Leasing Market Fundamentals

- The Washington D.C. Metro region experienced 250,000 SF of negative net absorption during the third quarter of 2025. The negative net absorption was largely seen in the District, which experienced 344,450 SF of negative net absorption, followed by Northern Virginia seeing 20,000 SF of negative net absorption. Suburban Maryland, however, saw positive movement during the third quarter of 2025, experiencing 115,000 SF of positive net absorption.
- Overall vacancy ended Q3 2025 at 20.8%, expanding 20 bps since the third quarter of 2024. Availability tightened, however, ending Q3 2025 at 23.2%, tightening 200 bps year-over-year.
- Leasing activity was concentrated in the District and Northern Virginia during Q3 2025, with these regions containing the five largest transactions. Government agencies, contractors and law firms dominated the headlines, with four of the largest leases of the quarter.
- After five deliveries throughout 2024 totaling roughly 1.2 MSF, the market has seen just one delivery during the first three quarters of 2025. The development pipeline ended Q3 2025 with 725,000 SF under construction spread across four properties.

Outlook

- Capital flows have slowed dramatically in the Washington metro area since the beginning of 2025. Tenant demand in the market has slowed as well, especially among out-of-market businesses seeking to move into the region.
- Several lease transactions and major development projects have been put on hold amid uncertainty around federal government funding and actions.
- High-end, trophy office space is undersupplied, with little relief in sight as construction costs and interest rates remain elevated. The metro area's current trophy availability rate registers 14.4%, 400 bps lower than one year ago.
- DOGE-driven job losses in both the public and private sectors have begun to impact regional metrics, with the potential for further federal government shutdown-related reductions in force and layoffs. Through the first half of the year, the region lost nearly 4.5% of its federal jobs. As a result, unemployment within the metro area, which has increased at a faster pace than nationally, is projected to climb through the end of the year and into 2026, with each of its jurisdictions facing increases.

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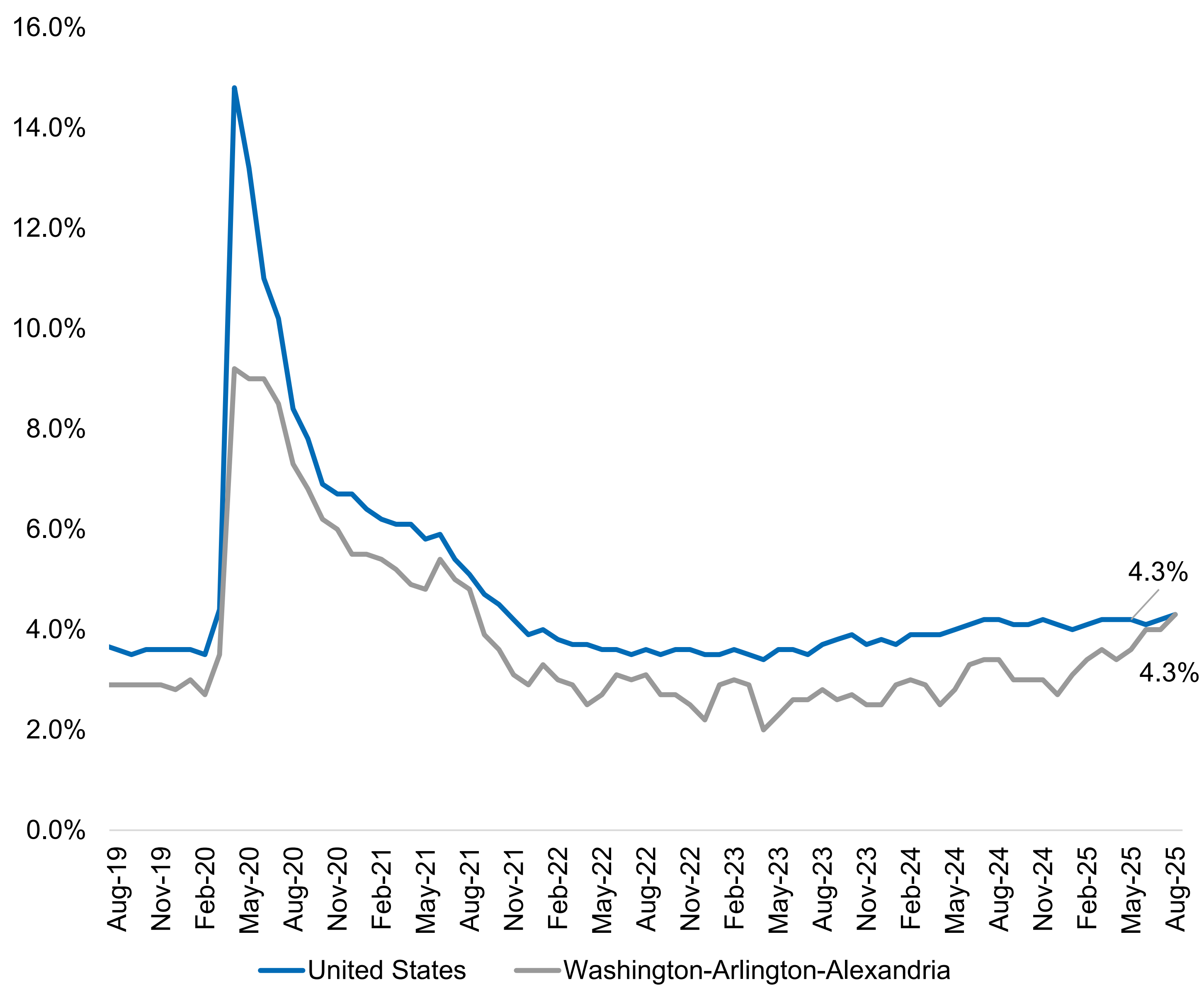
Economy

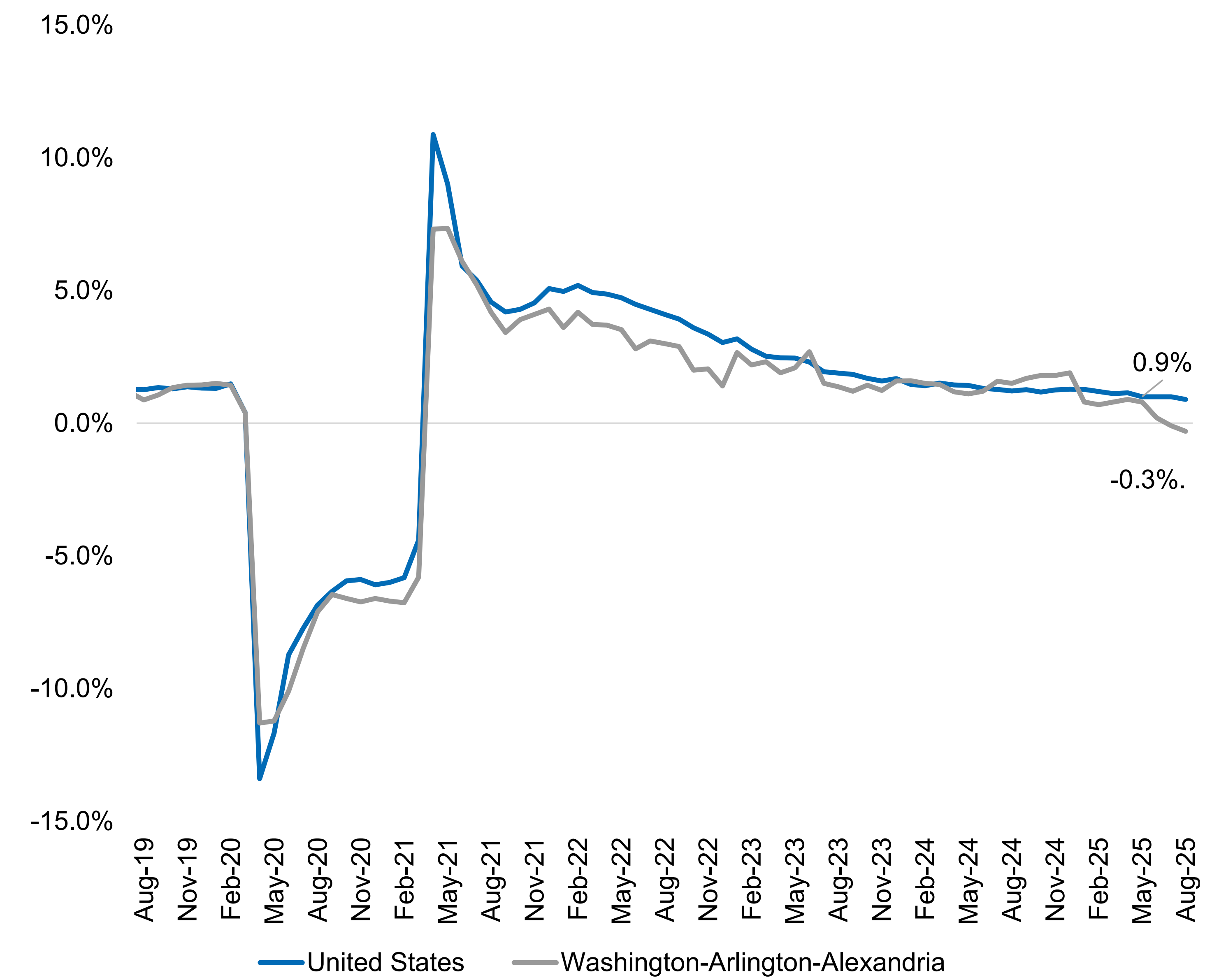
Metro Unemployment Rate Even With The National Average

Though the region's labor market remains tight, the metro's unemployment rate increased quarter-over-quarter and year-over-year, with unemployment now equal to the national average. As of August 2025, the region's unemployment rate is 4.3%, an increase of 90 bps compared with the same period last year. Regional nonfarm job growth dipped negative, with a -0.3% 12-month growth as of August.

Unemployment Rate, Seasonally Adjusted



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

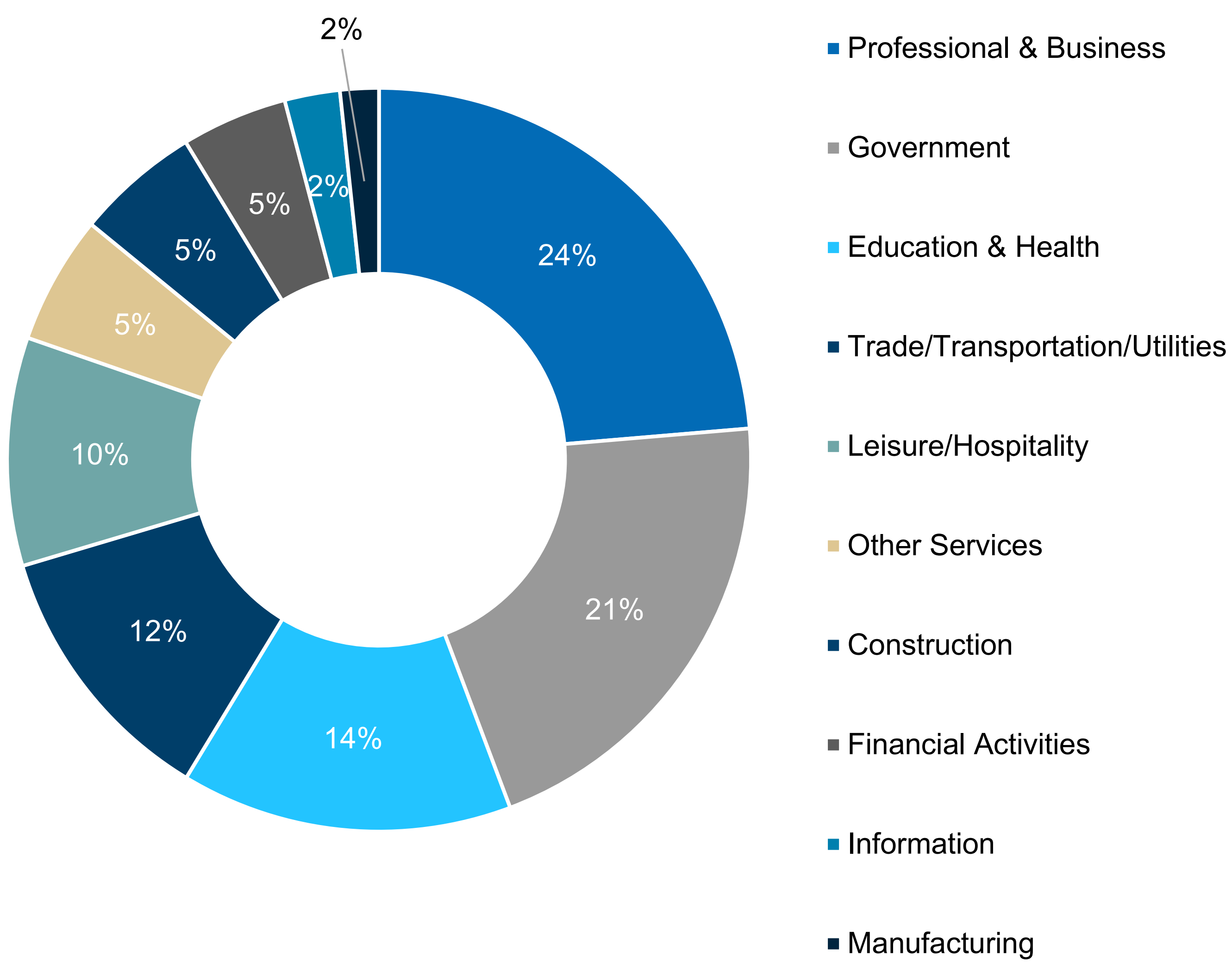


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

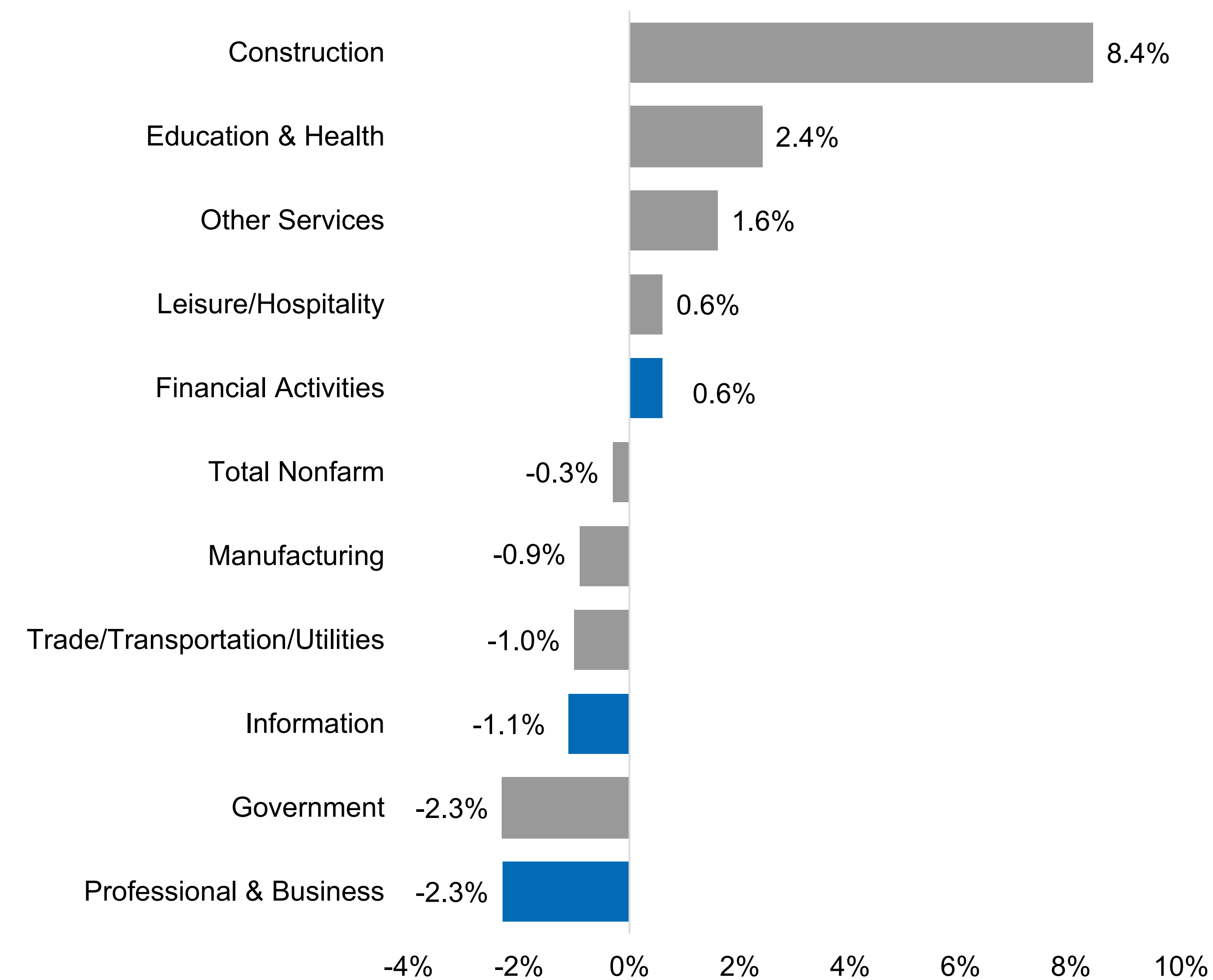
Job Growth Driven by Construction And Education & Health

Construction alongside Education & Health propped up job growth in the region with an 8.4% 12-month increase and a 2.4% 12-month increase, respectively, though total nonfarm employment growth was negative at -0.3%. The Leisure/Hospitality and Financial Activities sector also experienced 12-month growth of 0.6%, while the Information and Business & Professional sectors saw 12-month declines of 1.1% and 2.3%, respectively.

Employment by Industry, August 2025



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

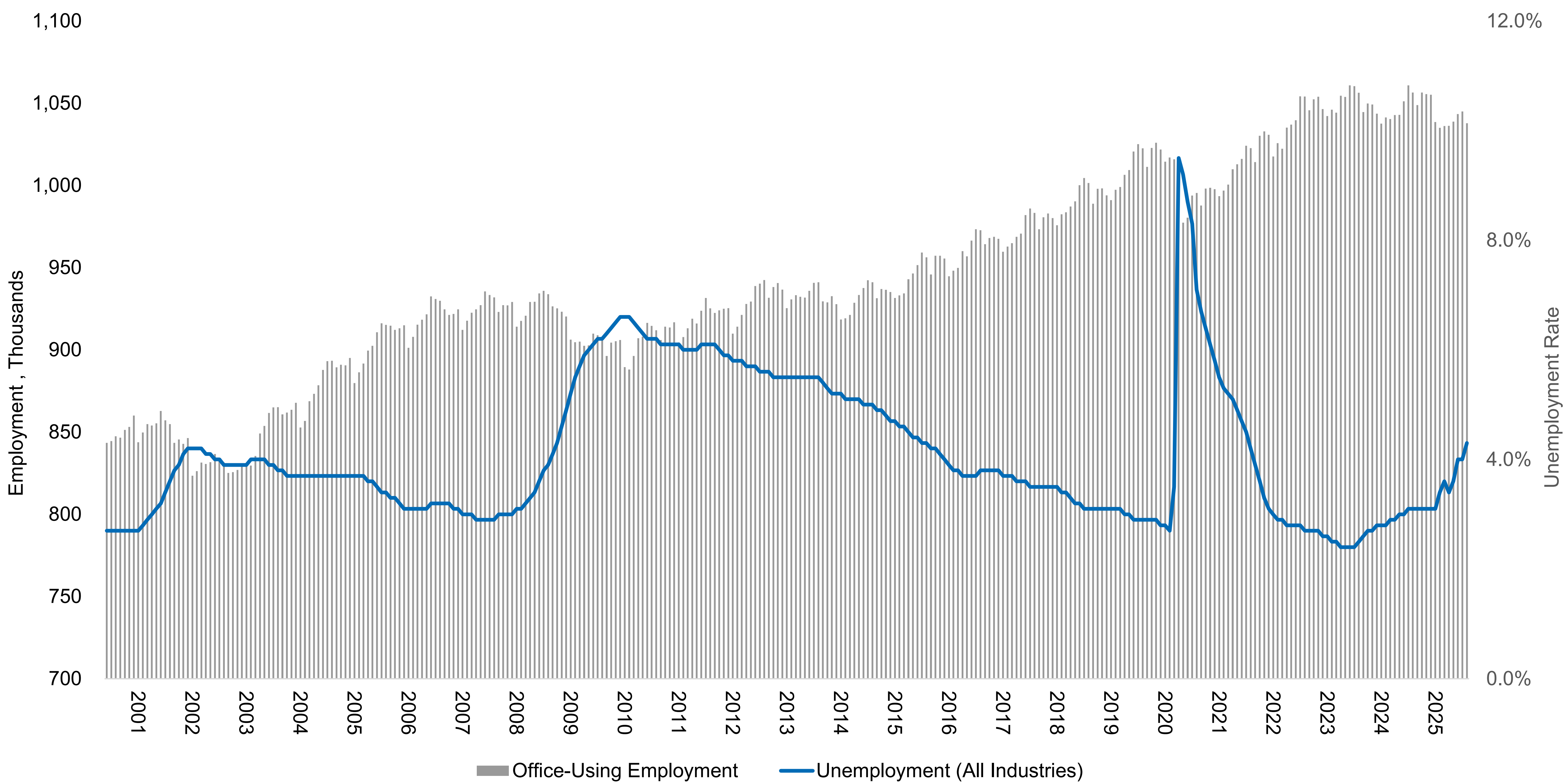


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Overall Office-Using Employment Is Lower Year-Over-Year

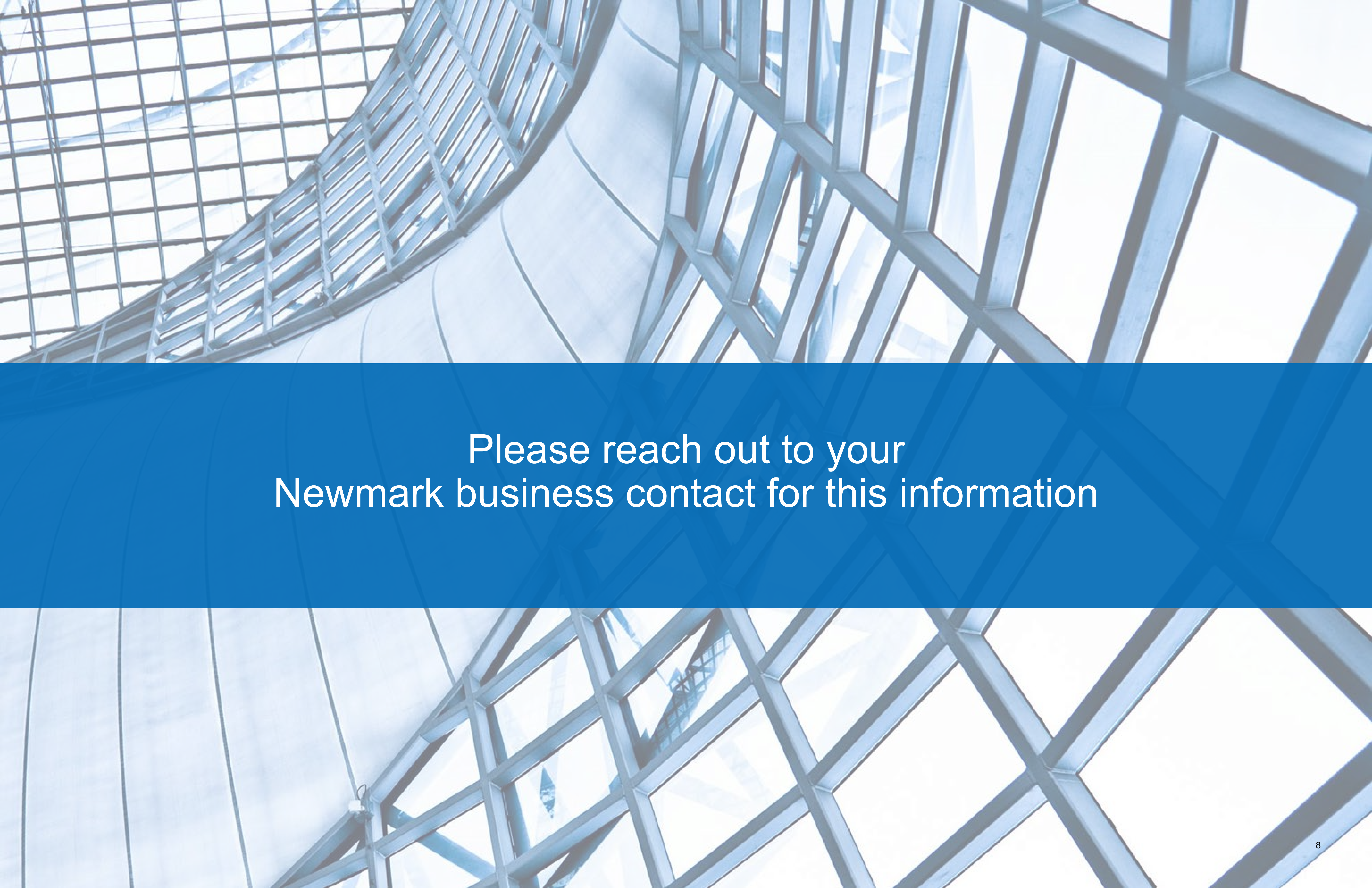
The number of office jobs exceeds pre-pandemic levels but are lower year-over-year. Office-using jobs in the region are currently 4.2% higher than five years ago, but 1.8% lower than in August 2024, due in part to DOGE actions and their impact on the regional workforce.

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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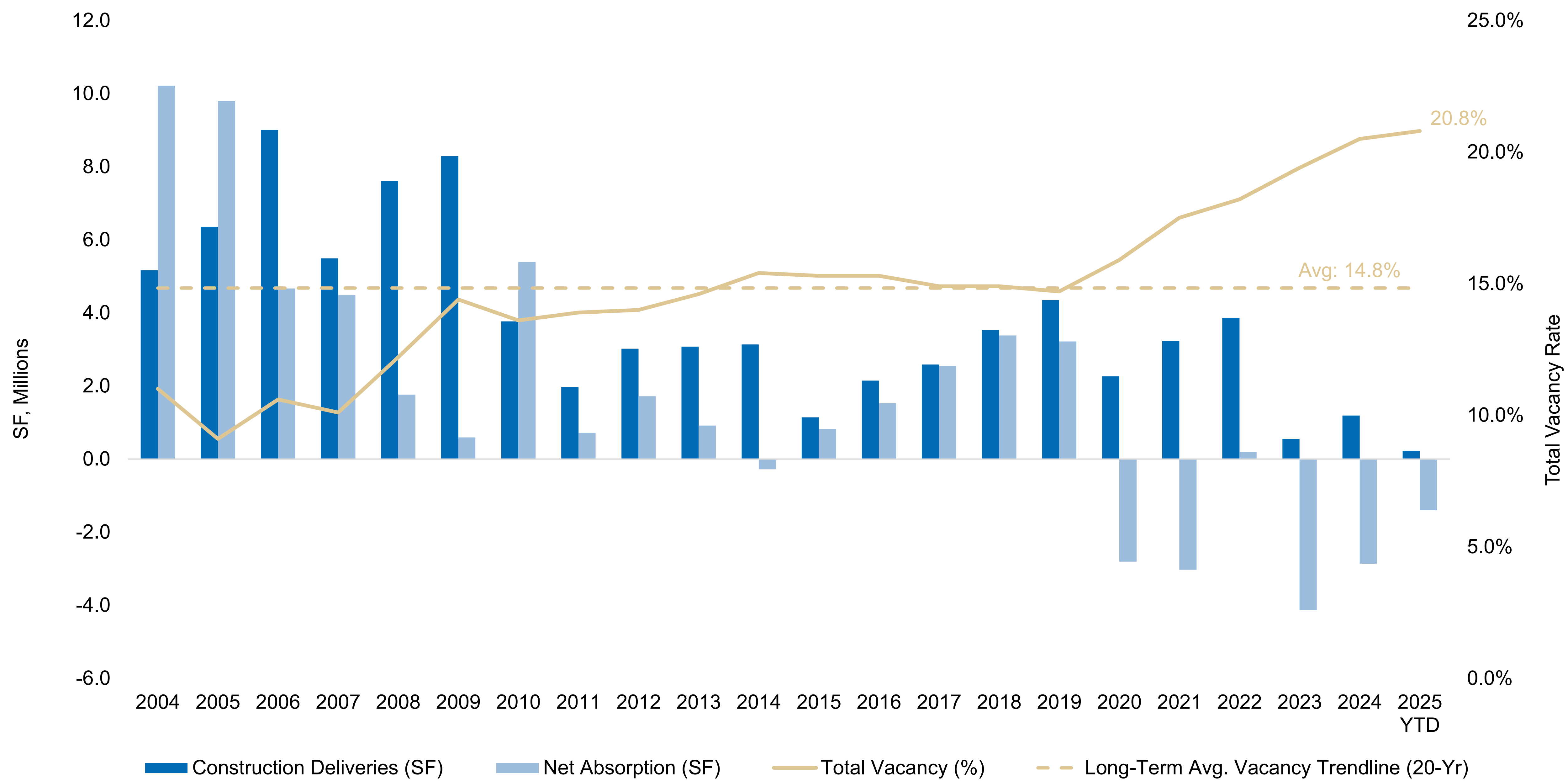
Leasing Market Fundamentals

Vacancy Increases Slightly During the Third Quarter of 2025

The metro area vacancy rate ended Q3 2025 at 20.8%, a year-over-year increase of 20 bps. The Washington metro area has experienced over 1.4 MSF of negative net absorption through the first three quarters of the year, leading to an expansion in vacancy. For the third quarter of 2025, the negative net absorption was largely seen in the District, which experienced 344,540 SF of negative net absorption, while Northern Virginia was relatively flat with 20,883 SF of negative net absorption. Suburban Maryland, however, saw positive movement during the third quarter, experiencing 115,371 SF of positive net absorption. The market continues to see a slowdown in development, with just one office delivery so far in 2025. A dearth of speculative development as well as continued office conversions could help to compress vacancy leading into the next year.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

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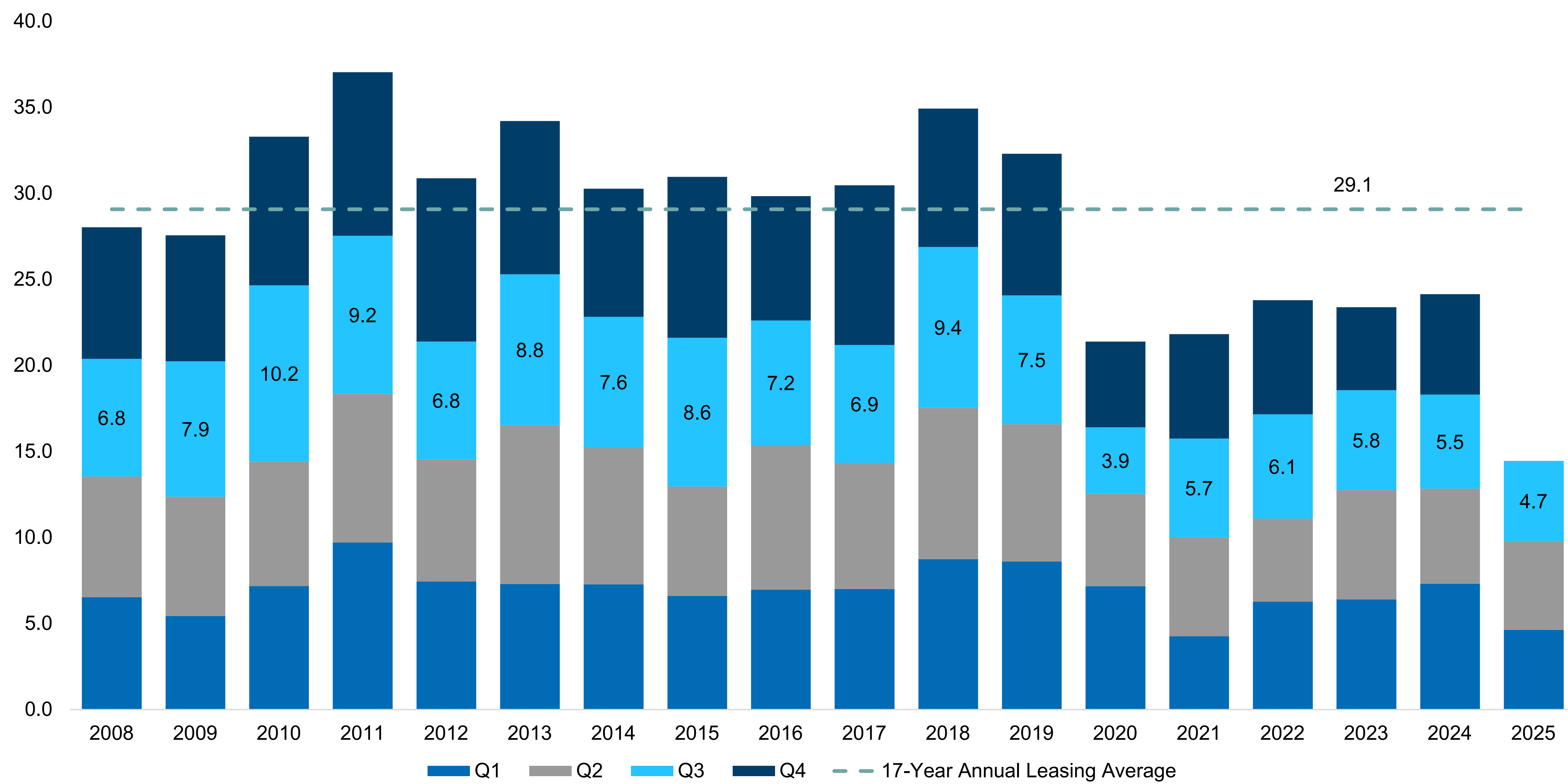
Leasing Volumes Down Compared with Previous Years

Leasing activity in the Washington metro area averaged 22.9 MSF per year since the beginning of 2020, well below the seventeen-year average of 29.1 MSF per year. Although the market hit a five-year high in 2024, with 24.1 MSF leased, activity through the first three quarters of 2025 has lagged previous years. During 3Q25, the market logged only 4.7 MSF of activity, much less than the ten-year third-quarter average of 6.6 MSF. Year-to-date, the metro area has seen 14.7 MSF of leasing activity, down from 18.3 MSF during the same period one year ago, and below the three-quarter average of 17.2 MSF experienced over the last five years.

Total Leasing Activity (msf)

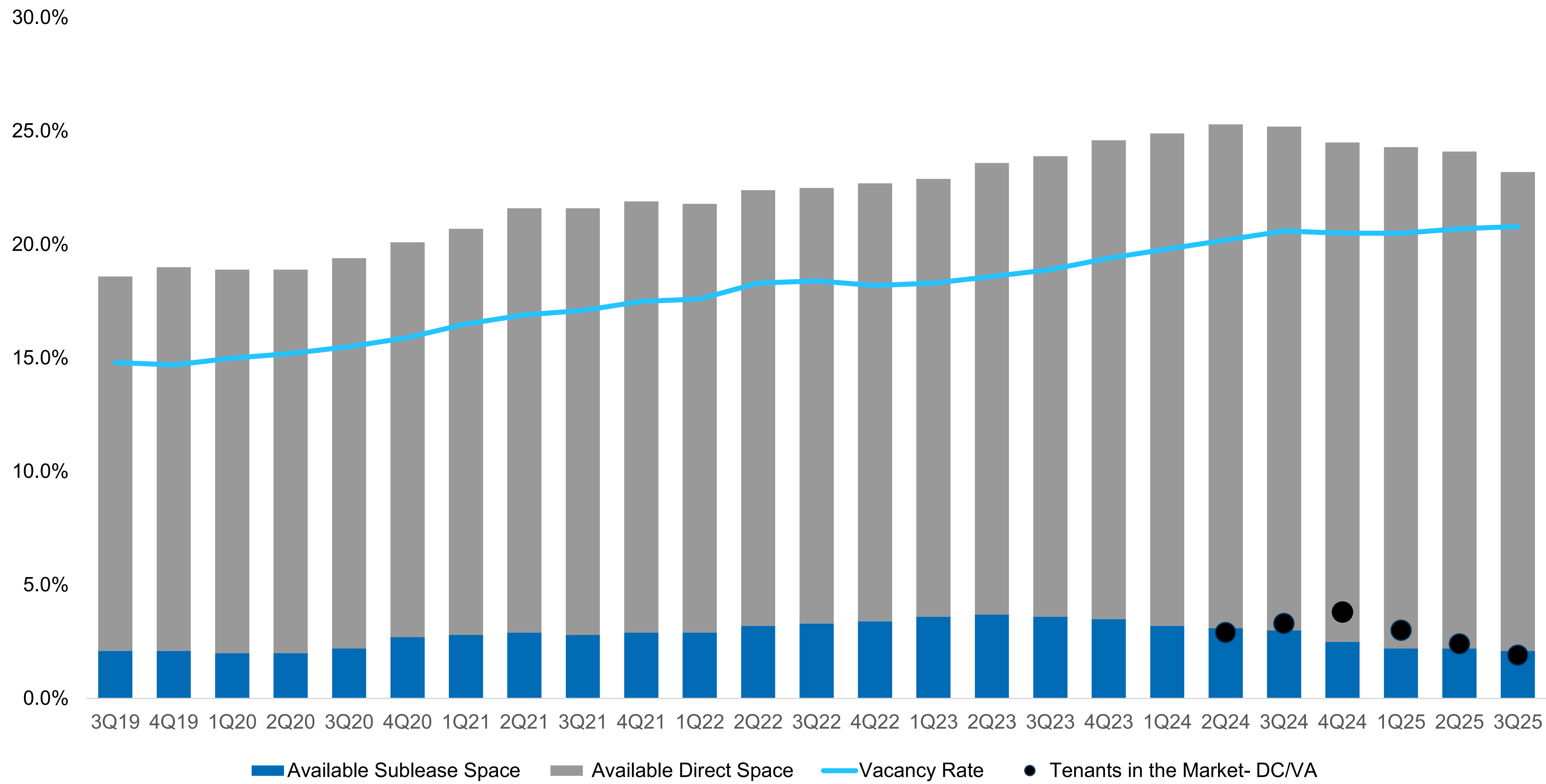


Source: Newmark Research, CoStar

Availability Decreases While Vacancy Remains Relatively Flat And Tenant Demand Drops

Sublease availability has decreased by 43.2% since the second quarter of 2023, ending 3Q25 at 2.1%. Direct availability has declined by 8.7% since peaking in the second quarter of 2024 and sits at 21.1% at the end of the third quarter. Overall, available office space ended Q3 2025 at 23.2%, a 100 bps decrease quarter-over-quarter and 200 bps year-over-year. Over the past six years, the direct availability rate has averaged 19.3% while the sublease availability rate has averaged 2.8%. Tenant demand has decreased in the District and Northern Virginia as the market adjusts to federal government policy changes.

Available Space and Tenant Demand as Percent of Overall Market

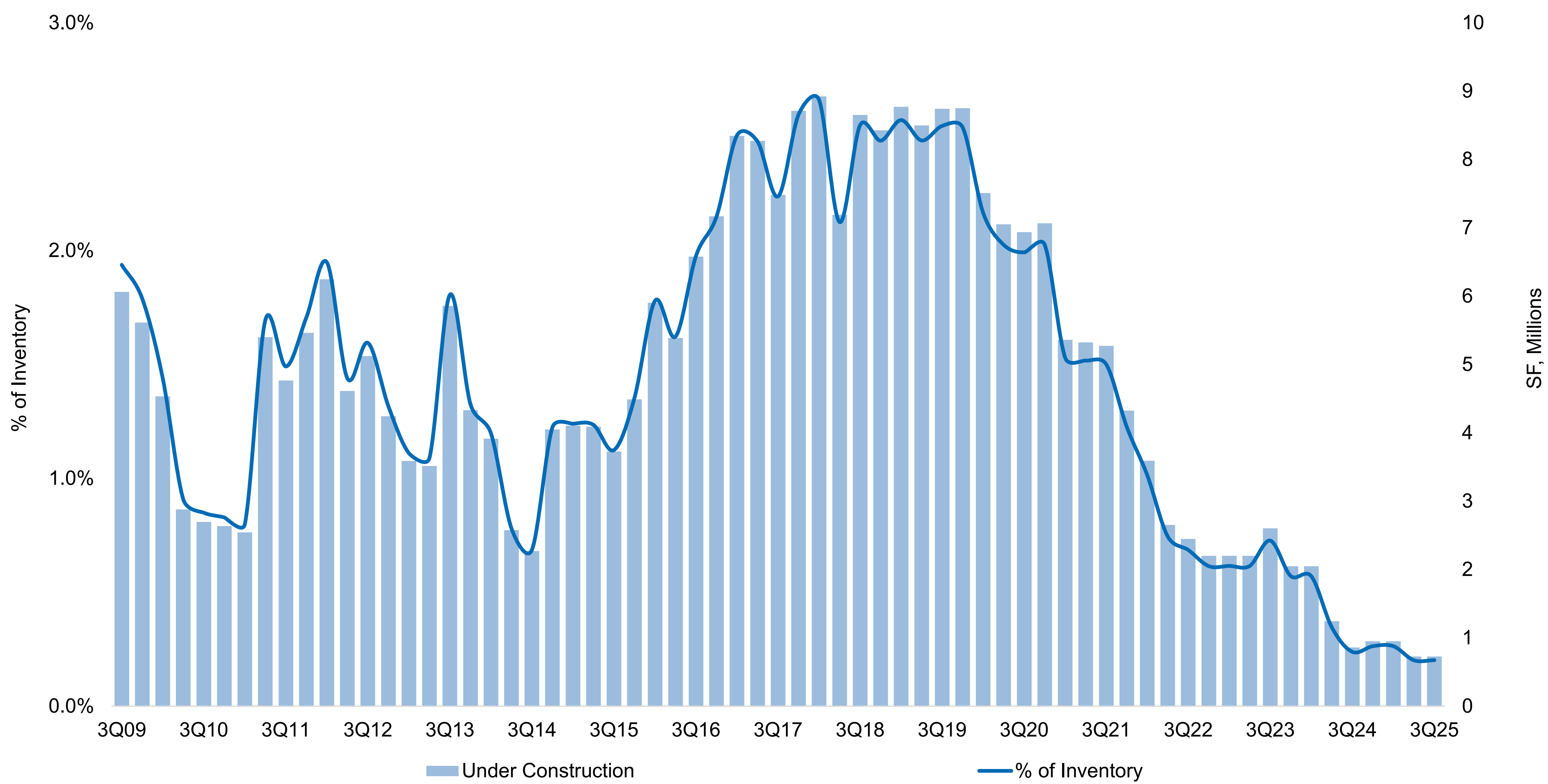


Source: Newmark Research

Deliveries Slow as Office Construction Pipeline Sits At 15-Year Low

The Washington Metro area development pipeline is currently at a fifteen-year low despite no deliveries in Q3 2025, following one delivery during the second quarter. Total, there are only 4 office properties totaling approximately 725,000 SF under construction, well below the historical average of 18 properties totaling over 5 MSF under construction. BXP is slated to redevelop 725 12th Street, NW in the East End submarket, consisting of 320,000 square feet, which is 81% preleased. There are additional properties planned or proposed in the metro area, but none that have advanced beyond the final planning stage.

Office Under Construction and % of Inventory

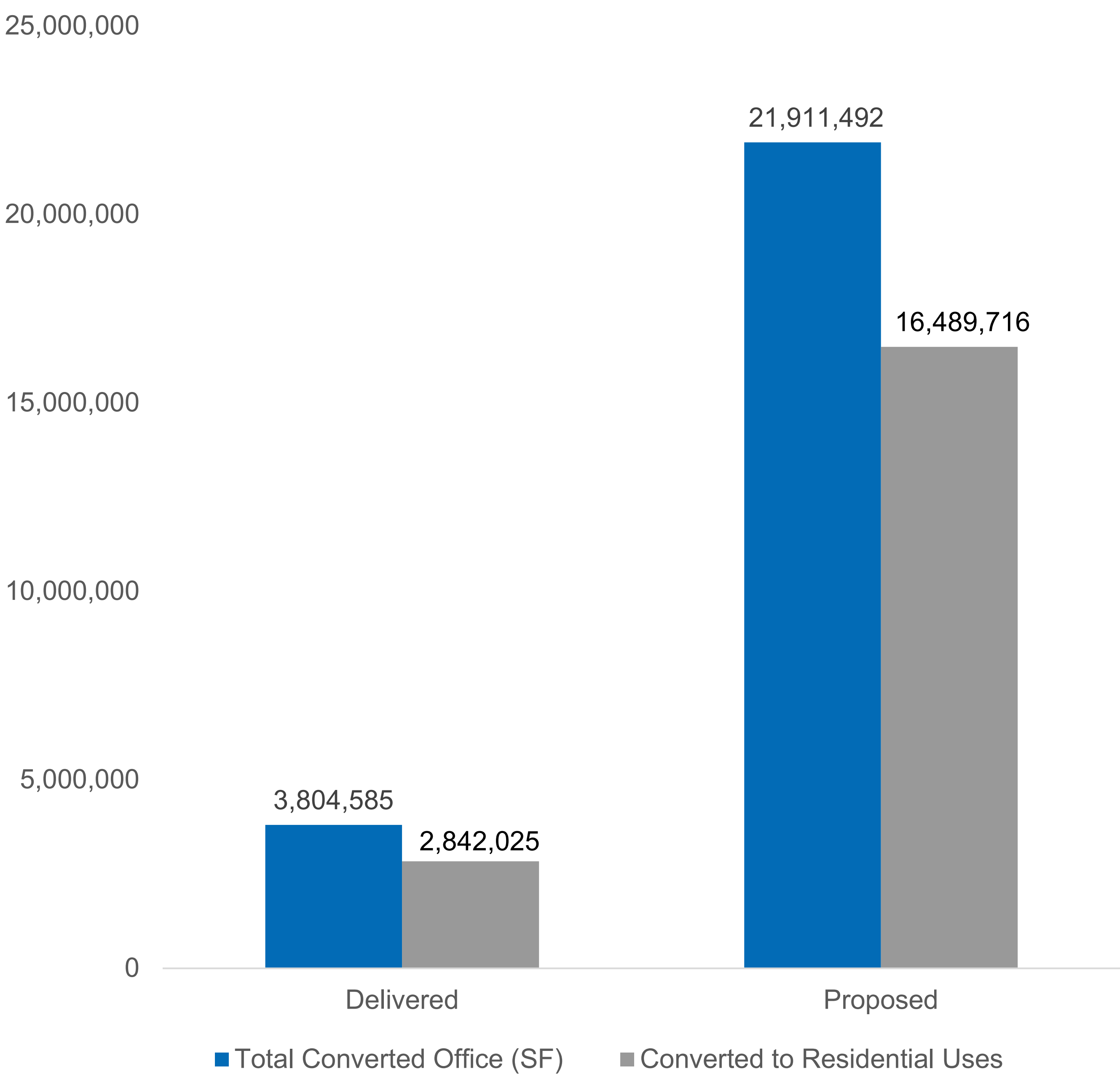


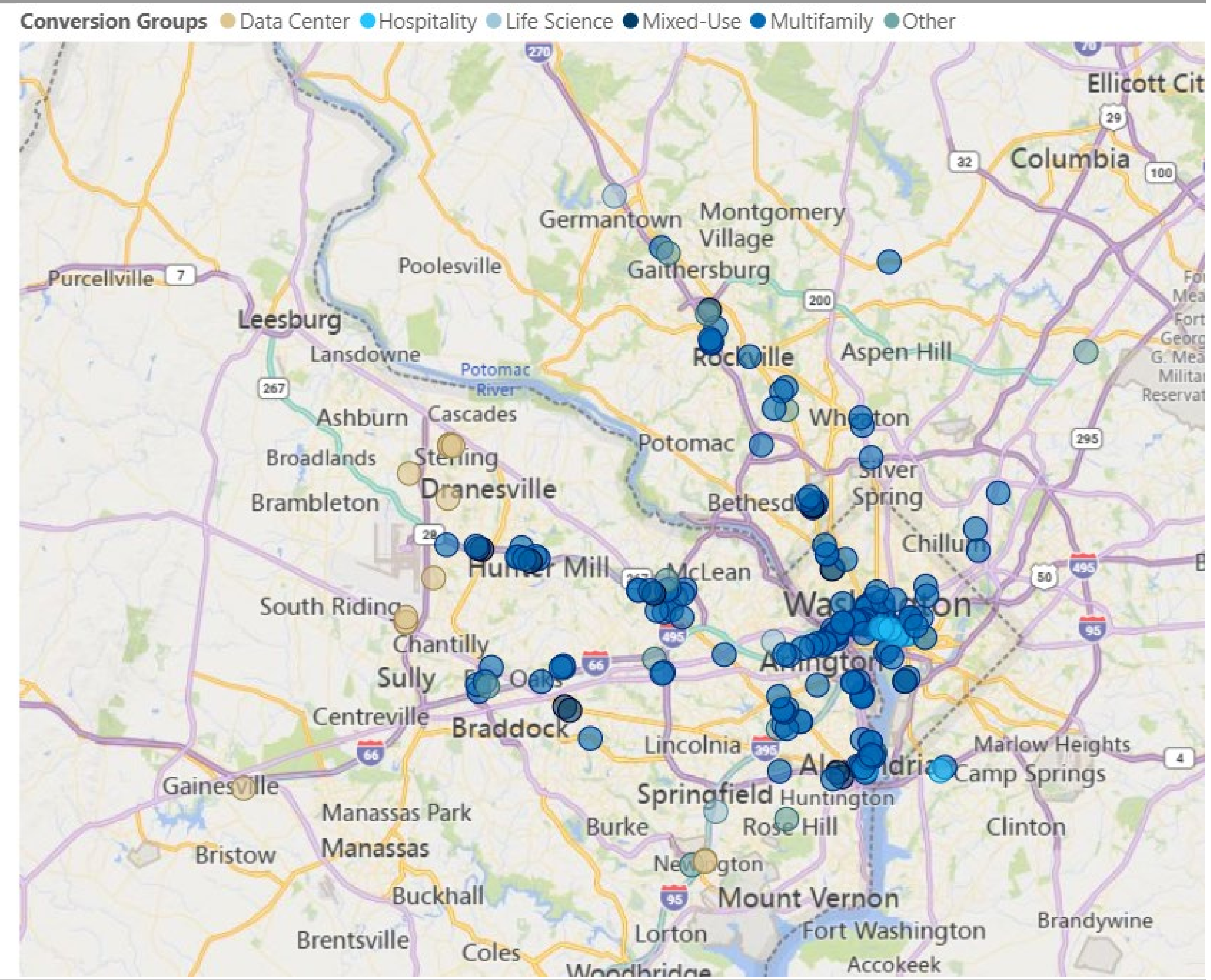
Source: Newmark Research, CoStar

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 21.9 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 16.5 MSF of the 21.9 MSF (75.3%) is proposed to be converted into residential uses. In addition, more than 2.3 million square feet of Northern Virginia office space is proposed for conversion into data centers. The bulk of conversion activity overall exists in the District and Northern Virginia.

DC Metro Office Conversions Delivered or Proposed After 2020



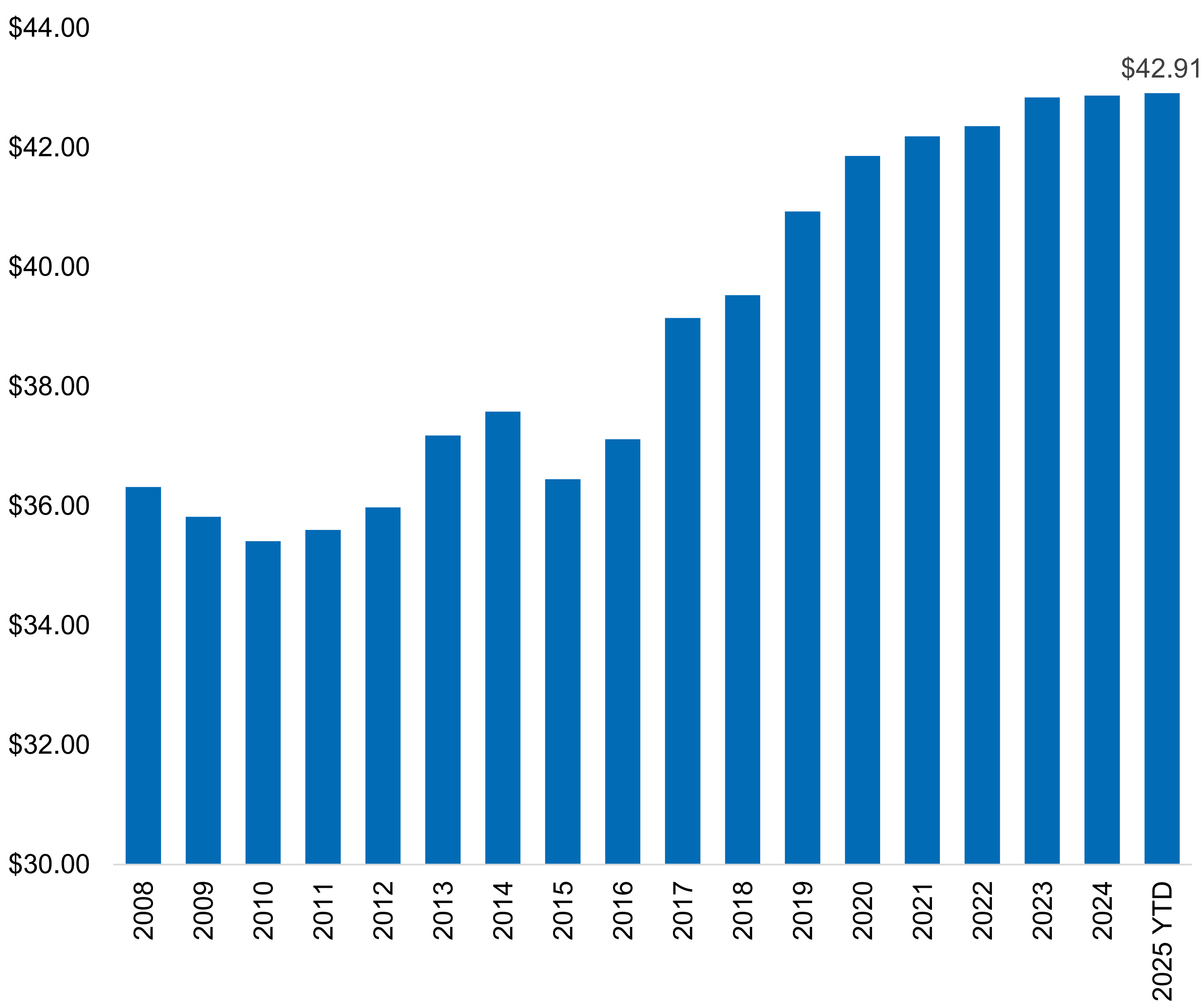


Source: Newmark Research.

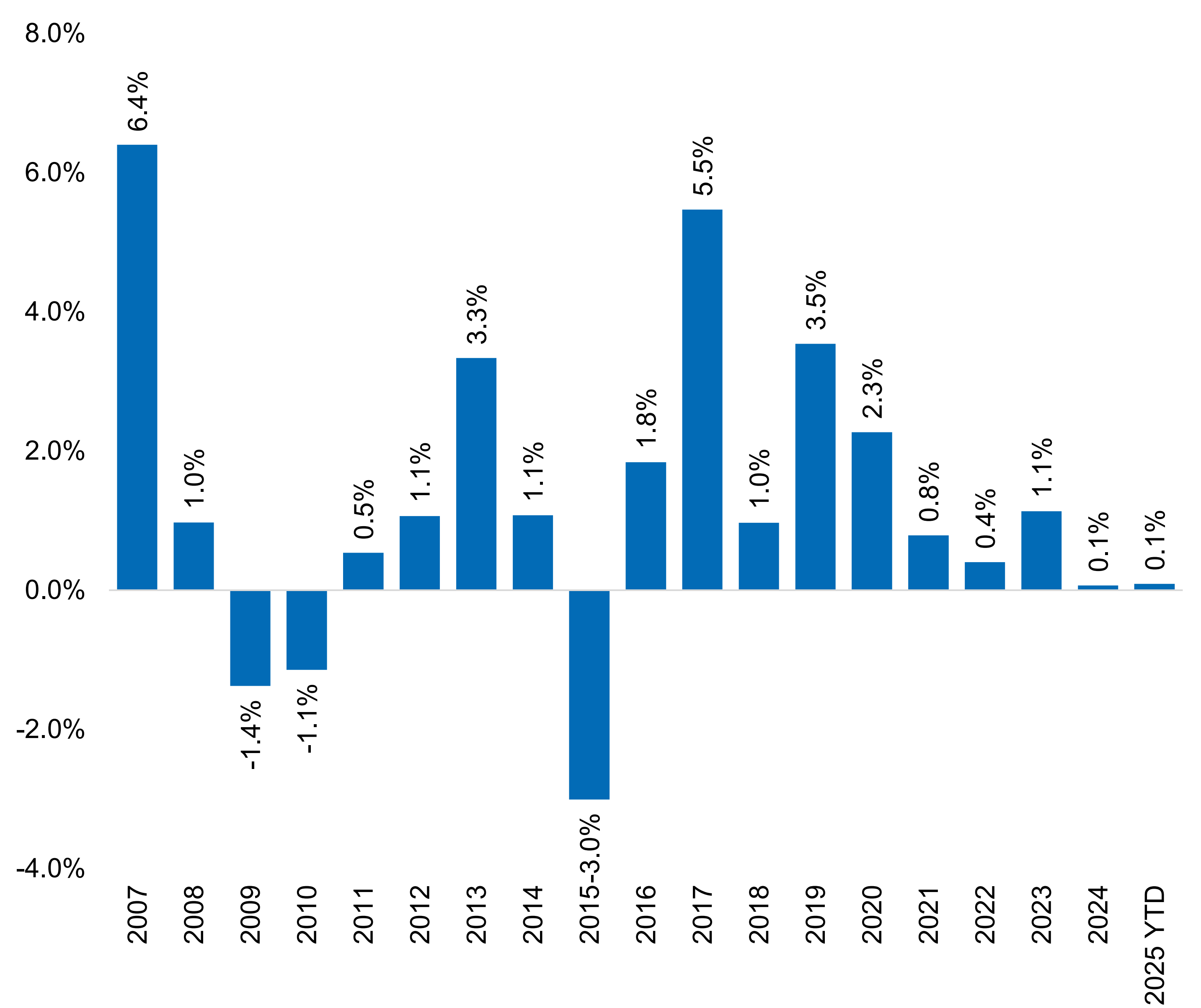
Rents Remain Relatively Stable

Asking rents ended Q3 2025 at $42.91 PSF, seeing a slight increase of 0.1% compared with the end of 2024. Overall, rent growth began decelerating in 2020 and has remained relatively flat since the end of 2023.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

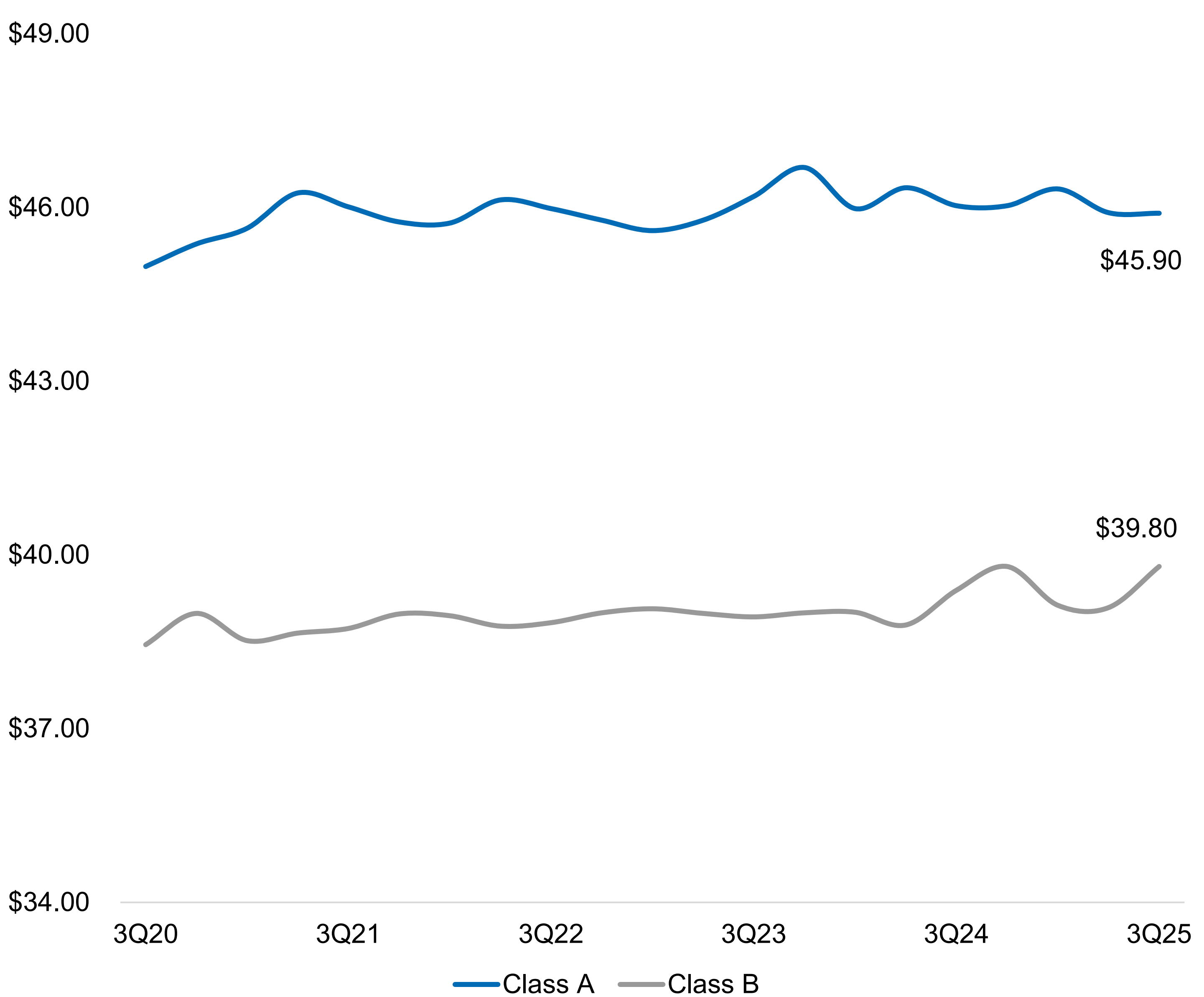


Source: Newmark Research

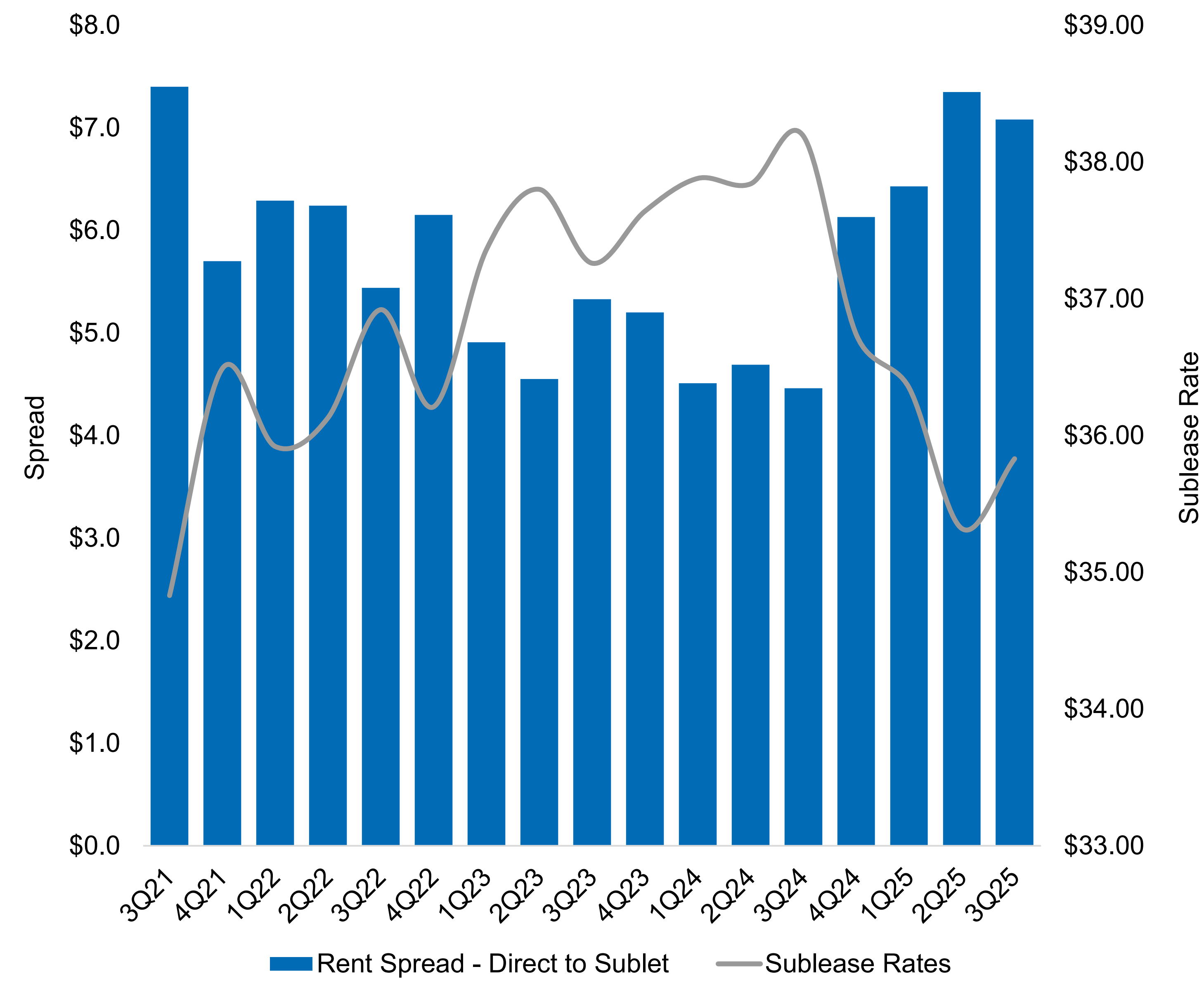
Class A and Class B Rents Growth Mixed During Third Quarter of 2025

Class A asking rents decreased 0.3% year-over-year during the third quarter of 2025, ending the period at $45.90 PSF. Class B asking rates spiked, however, ending the period at $39.80 PSF, an increase of 1.0% over the same period. Sublease rates recovered slightly, ending Q3 2025 at $35.83 PSF, however, this remains 6.2% lower than one year ago.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

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Market Statistics

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For more information:

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

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

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

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