4Q24

District of Columbia Office Market Overview

NEWMARK

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. October's 3.1% unemployment rate remains lower than the region's ten-year historical average of 3.8%, tightening 60 basis points quarter-over-quarter and expanding 30 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 2.4%. Furthermore, the Business & Professional and Government sectors also experienced notable job gains, increasing 1.4% and 0.6% year-over-year, respectively. The office-occupying industries of Information and Financial Activities 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 1.5% higher than five years ago—just prior to the pandemic—and 6.3% higher than the pandemic-induced employment trough in May 2020.

Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume with the average PSF of $364 down from the recent peak of $645 PSF in 1Q23. The Total transaction volume in the fourth quarter was $1.7 billion, down from the recent peak of $3.8 billion in 1Q22. However, owner-user sales and conversion opportunities are propping up a lot of demand in Washington, D.C. capital markets.
- The most notable sale of the quarter was 2101 L Street. The 380,000 SF, 10-story office building was sold by JBG Smith to BG Ventures for $110.1 M, or $290 PSF. The Class A building was originally built in 1975 and went through an extensive renovation in 2007. It was 75% leased at the time of sale, with notable tenants including Greenberg Traurig LLP, Cushman & Wakefield, and Quinn Evans Architects, among others.

Leasing Market Fundamentals

- The District of Columbia experienced 487,840 SF of positive net absorption during Q4 2024. The vacancy rate declined 60 basis points quarter-over-quarter to 19.2% and decreased 50 basis points year-over-year.
- The sole property under construction in the district is 600 Fifth, a 400,000-square-foot office building in the East End.
- Overall, asking rents have decreased slightly during 2024 Taking rents of trophy space continue to increase as the overall availability of space in trophy assets, regardless of where it is in the stack, decreases. Asking rents for trophy class have declined slightly. However, this is due to top stack space being occupied, with the remaining vacancies in trophy assets located mainly in the lower stack with lower rents, decreasing the overall average of trophy class asking rents. This sheer lack of supply will continue to put upward pressure on taking rents. Class B rents have increased 1.4%. The longer-term trend, however, shows that both Class A and Class B rents have remained relatively flat since 2019.

Outlook

- This past year has seen an uptick in unconventional investors entering the DC office market as many smaller firms can now afford to purchase assets at the current discounted pricing.
- The Fed has cut the federal funds rate multiple times in 2024 coinciding with an uptick in real estate activity. Market players expect further rate cuts as inflation persists.
- The upcoming year is likely to be more active for leasing as tenants are more confident in their long-term space needs. Additionally, sales activity in the District is will also increase as lenders continue to take back underperforming assets. This will allow new owners to come in at a lower cost basis and recapitalize the assets through TIs, renovations, and conversion. This will further drive leasing activity and continue to lower the vacancy rate.

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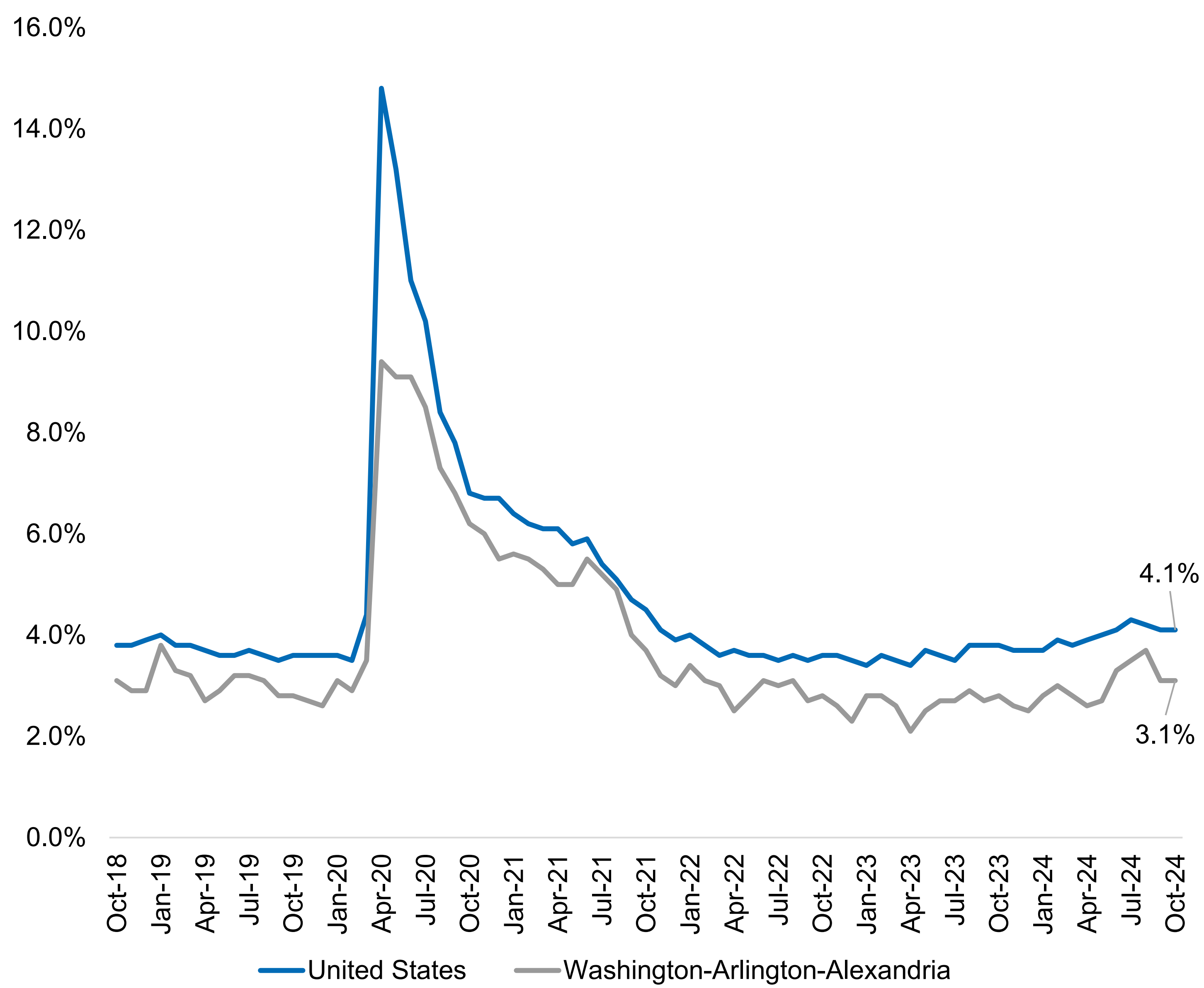
Economy

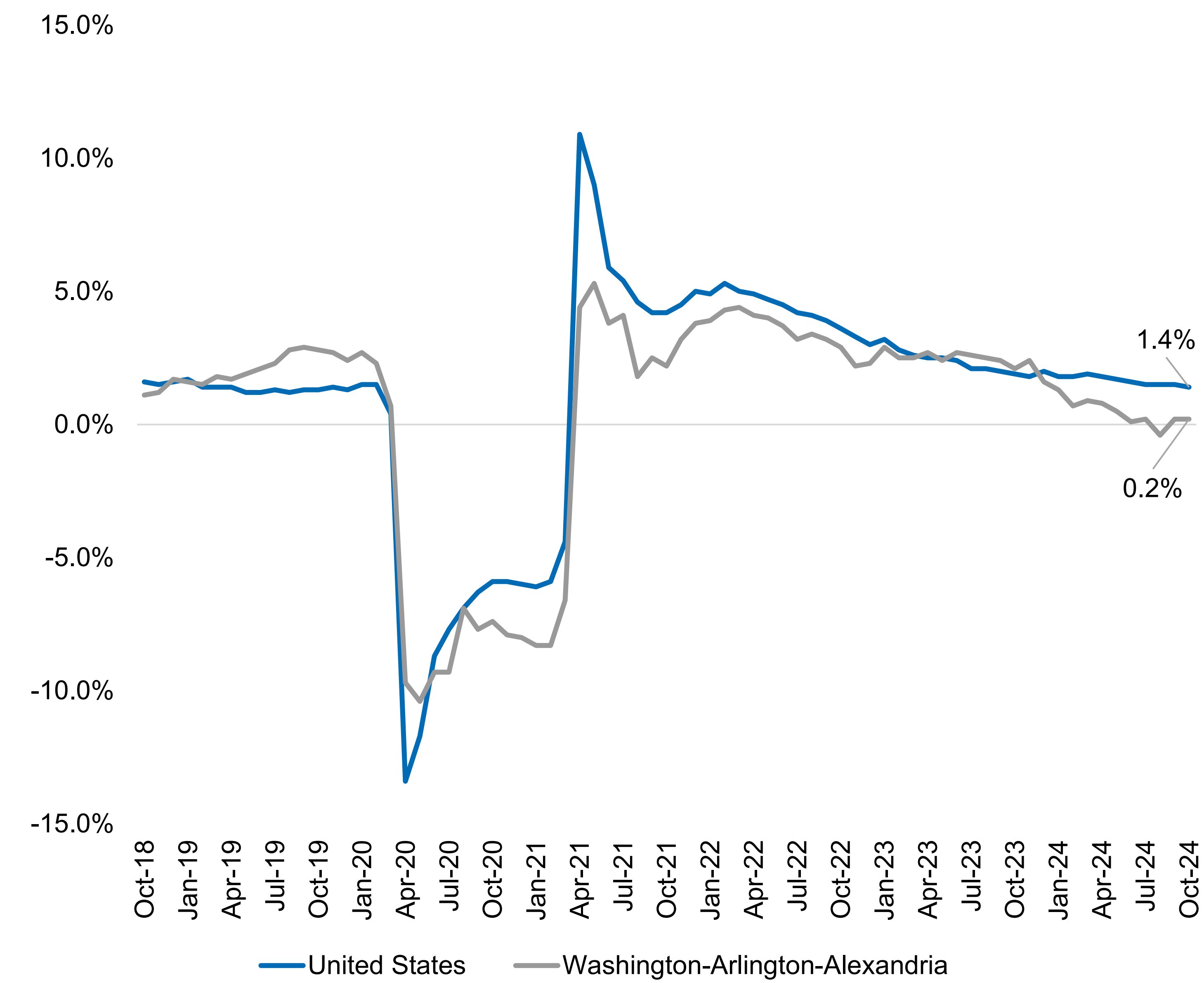
Metro Employment Job Growth Rebounds from Negative Territory

The region's labor market is very tight, with unemployment 100 basis points below the national average. The metro unemployment rate drastically decreased 60 basis points from last quarter. National job growth has begun to slow but nonetheless remains positive. Year-over-year regional job growth has recovered slightly from net losses of -0.4% in August to positive growth of 0.2% in October.

Unemployment Rate, Seasonally Adjusted



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

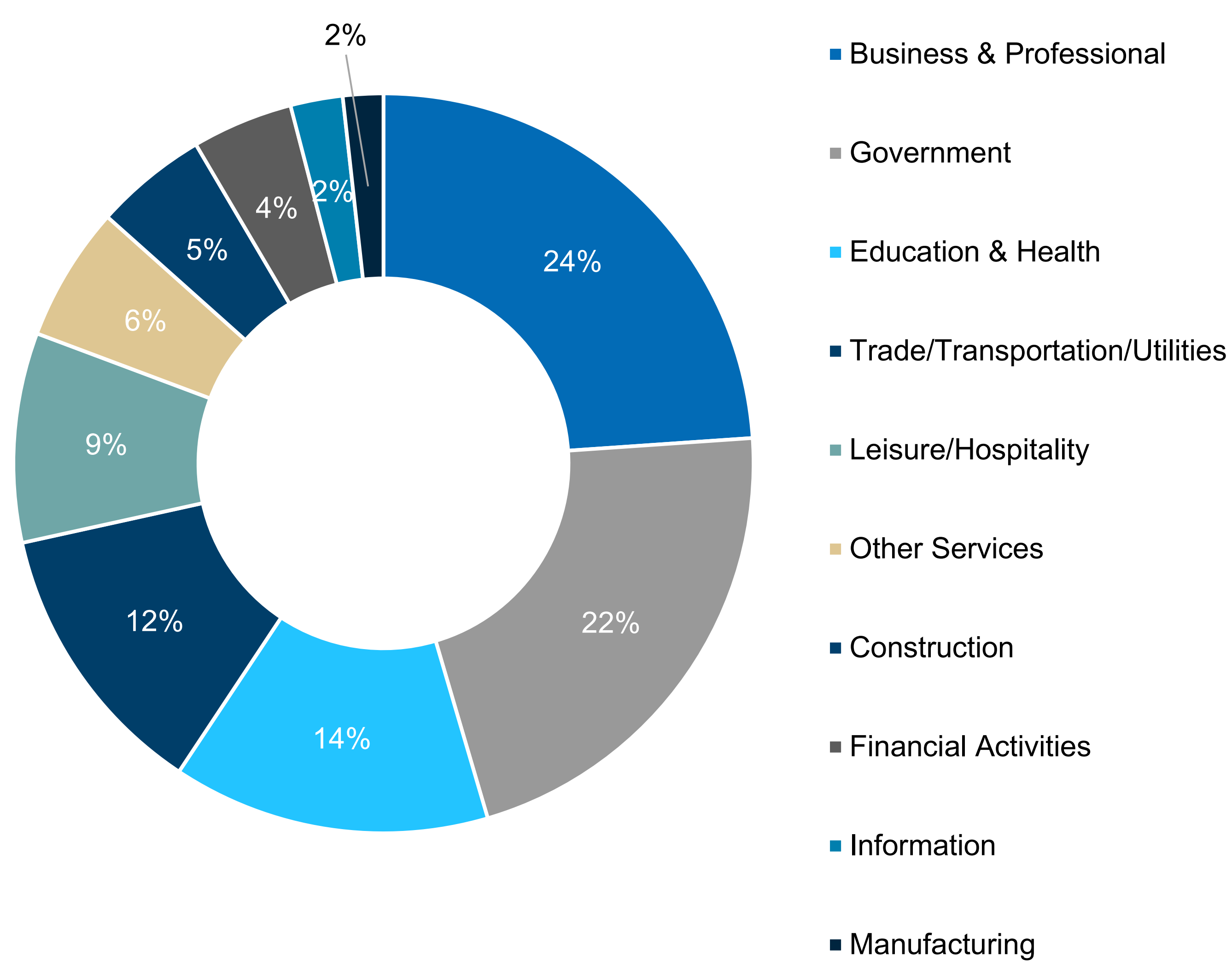


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

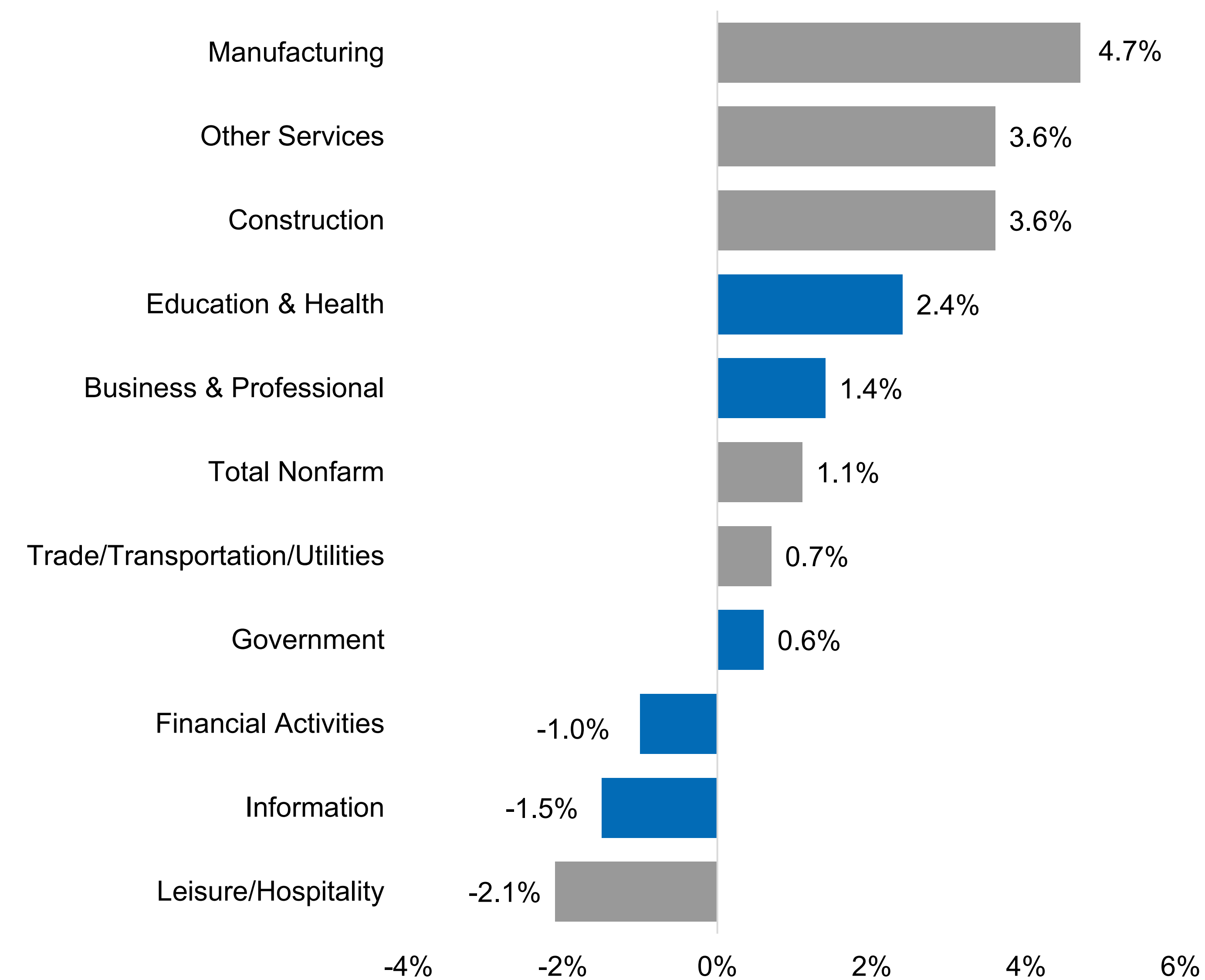
Business & Professional Services Sector Experienced Positive Annual Growth

Rather atypically, Manufacturing, Other Services, and Construction propped up job growth in the region, leading to total nonfarm employment growth of 1.1%. Although the other office-using sectors of Financial Activities and Information continued to have negative job growth, Business and Professional Services grew 1.4% year-over-year.

Employment by Industry, November 2024



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

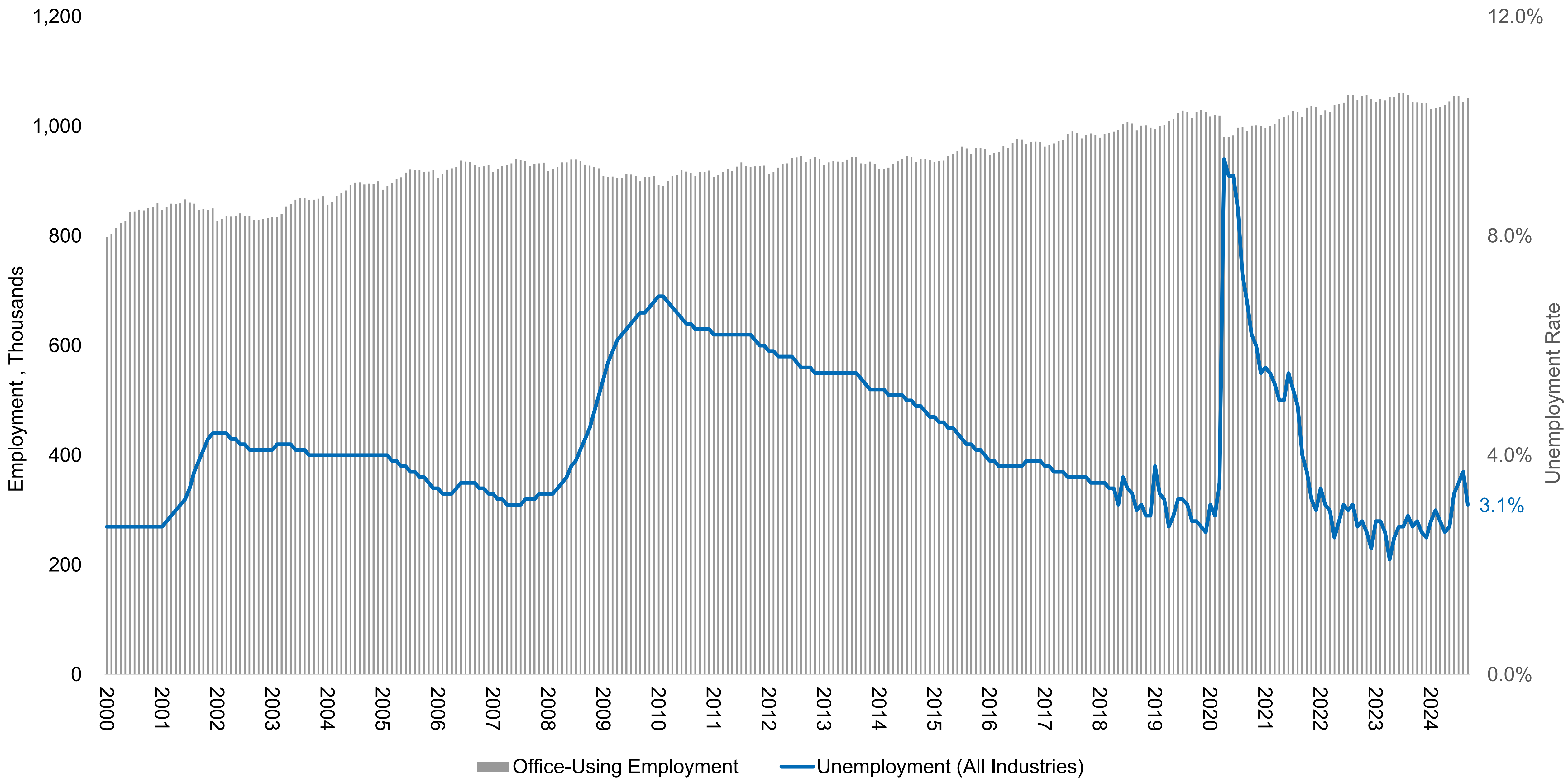


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
Note: November 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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 2.4% 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-Alexandria-Arlington
Note: October 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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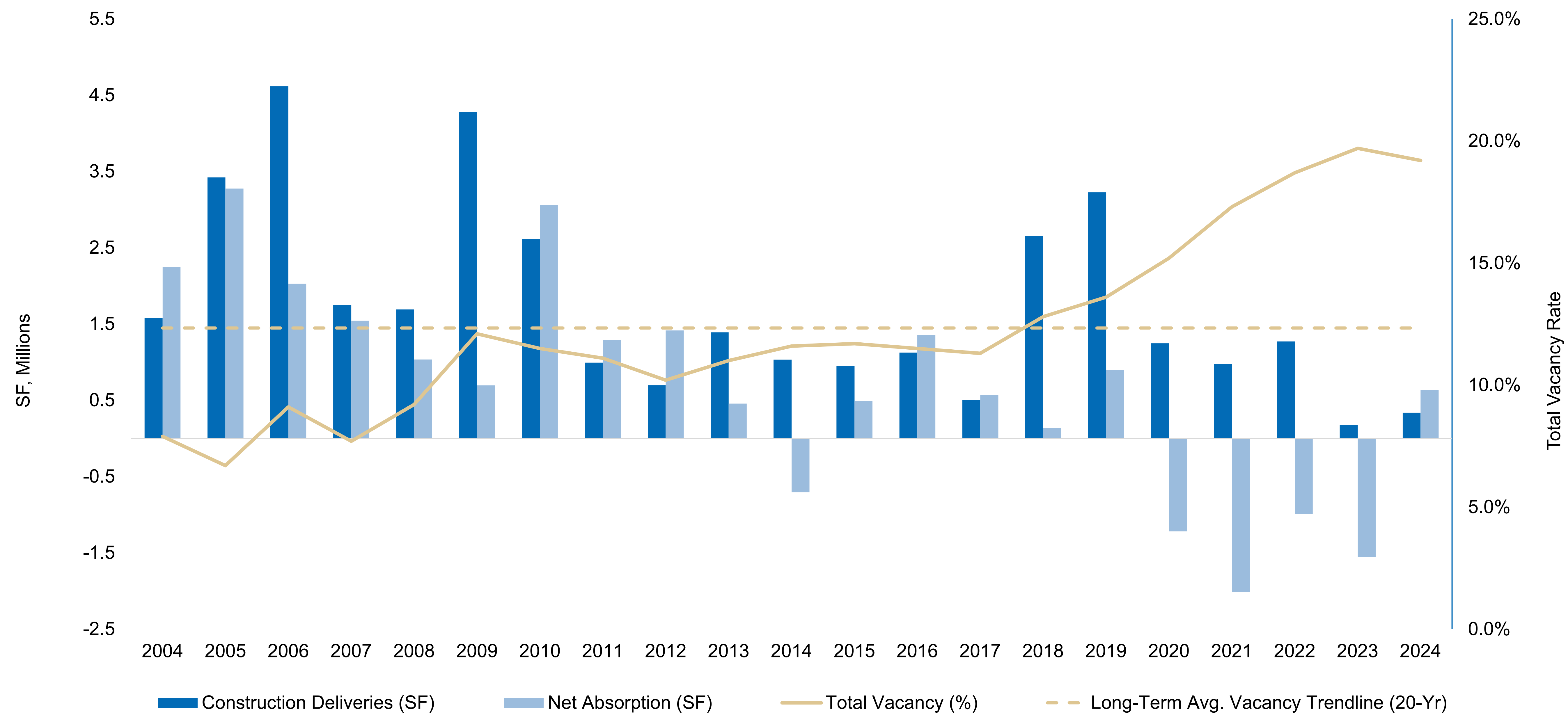
Leasing Market Fundamentals

Vacancy Declines Sharply as the Year Ends with Strong Positive Absorption

The District of Columbia's vacancy rate ended 2024 at 19.2%, a substantial 60 bps decrease quarter-over-quarter and 50 bps year-over-year. The sharpest uptick in office vacancy occurred in 2021, while the pace of growing availability has decelerated in the years since. The market has seen a slowdown in deliveries during 2024, experiencing only 336,000 SF of deliveries so far during the year. This is much less than the market's average of 1.7 million square feet of annual deliveries over the past 20 years.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

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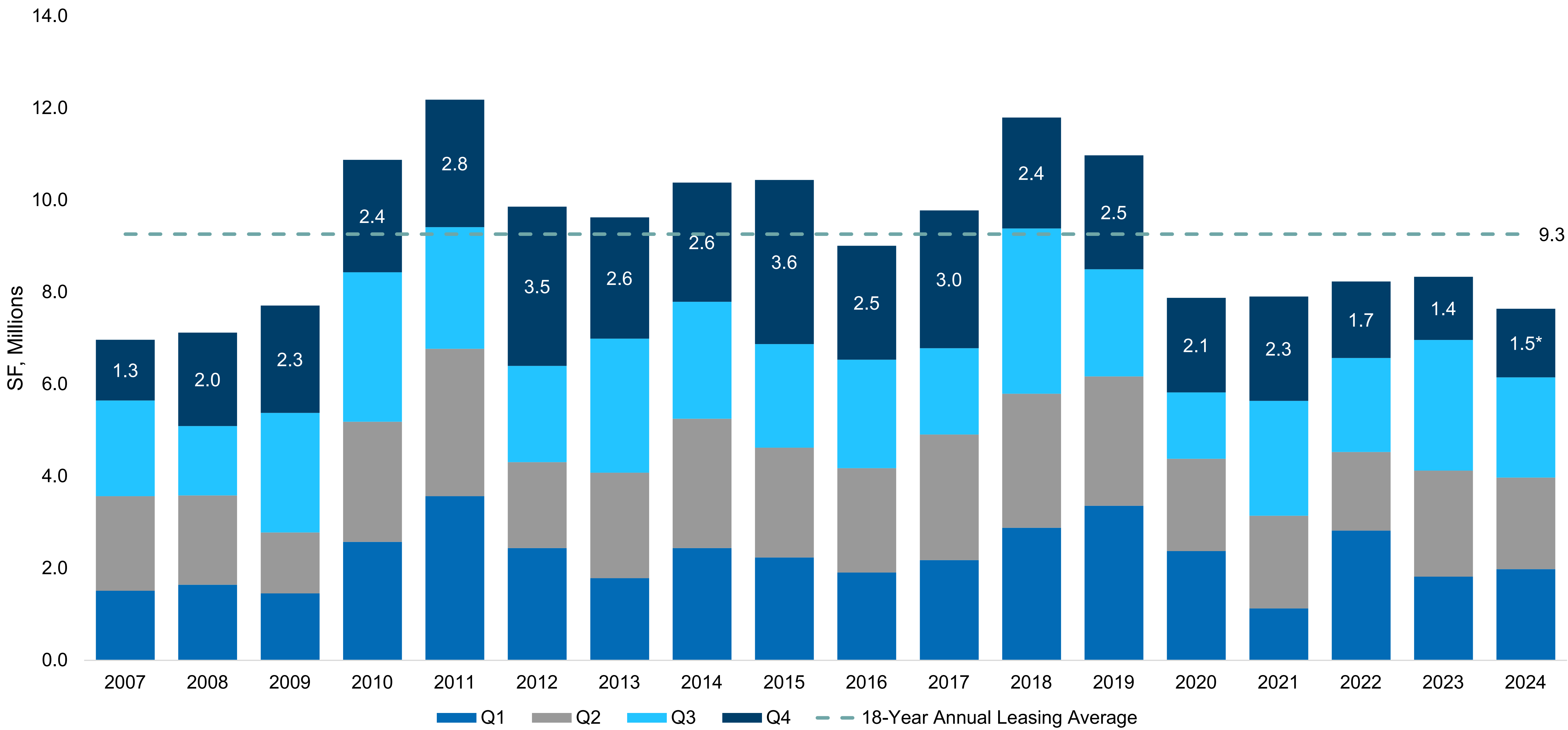
Leasing Activity Remains Stable Since 2020

During 4Q 2024, the market saw 1.5 MSF of leasing activity, slightly higher than the same period in 2023. Total leasing activity finished 2024 with 7.6 MSF. Larger leases are driven by the limited availability of trophy class product with major law firms and other large companies competing for the best space. Smaller spec suites are the primary target for new leases under 10,000 SF.

Total Leasing Activity (msf)

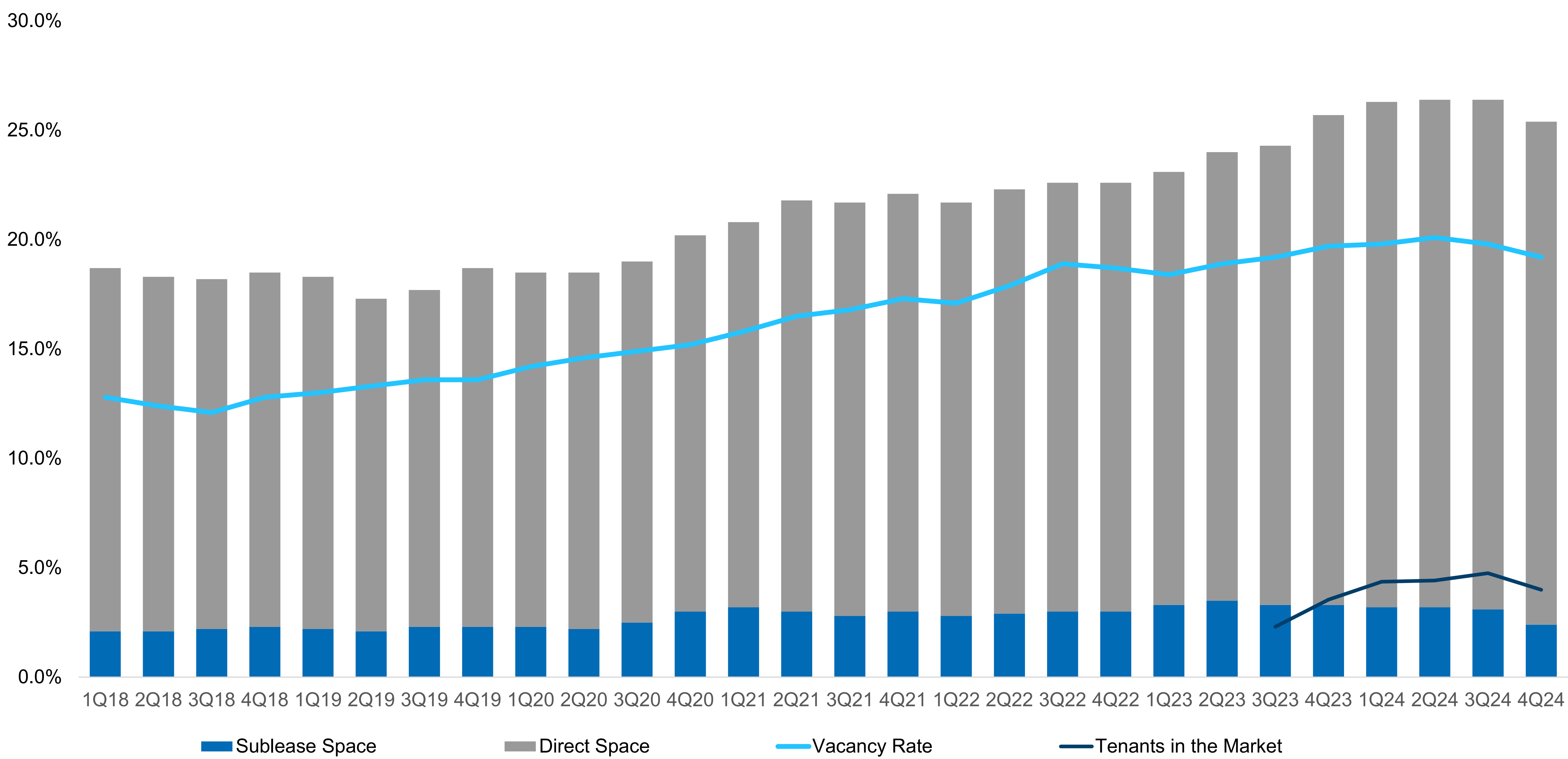


Source: Newmark Research, CoStar
*Year-to-date data is subject to change from CoStar data and is often lagging

Direct Availability Decreases, Sublease Availability Returns to Pre-Pandemic Levels

Available office space sits near historical highs. The Q4 2024 availability rates of 23.0% for direct space decreased 30 bps from the third quarter, increased 60 bps from the year prior, and is well above the five-year average of 19.6%. The 4Q 2024 availability rates for sublease space of 2.4% decreased 70 bps from the third quarter, decreased 90 bps from the year prior, and is well below the five-year average of 2.9% This limited sublease availability shows the increasing demand for ready-to-go functional office space in the District.

Available Space and Tenant Demand as Percent of Overall Market

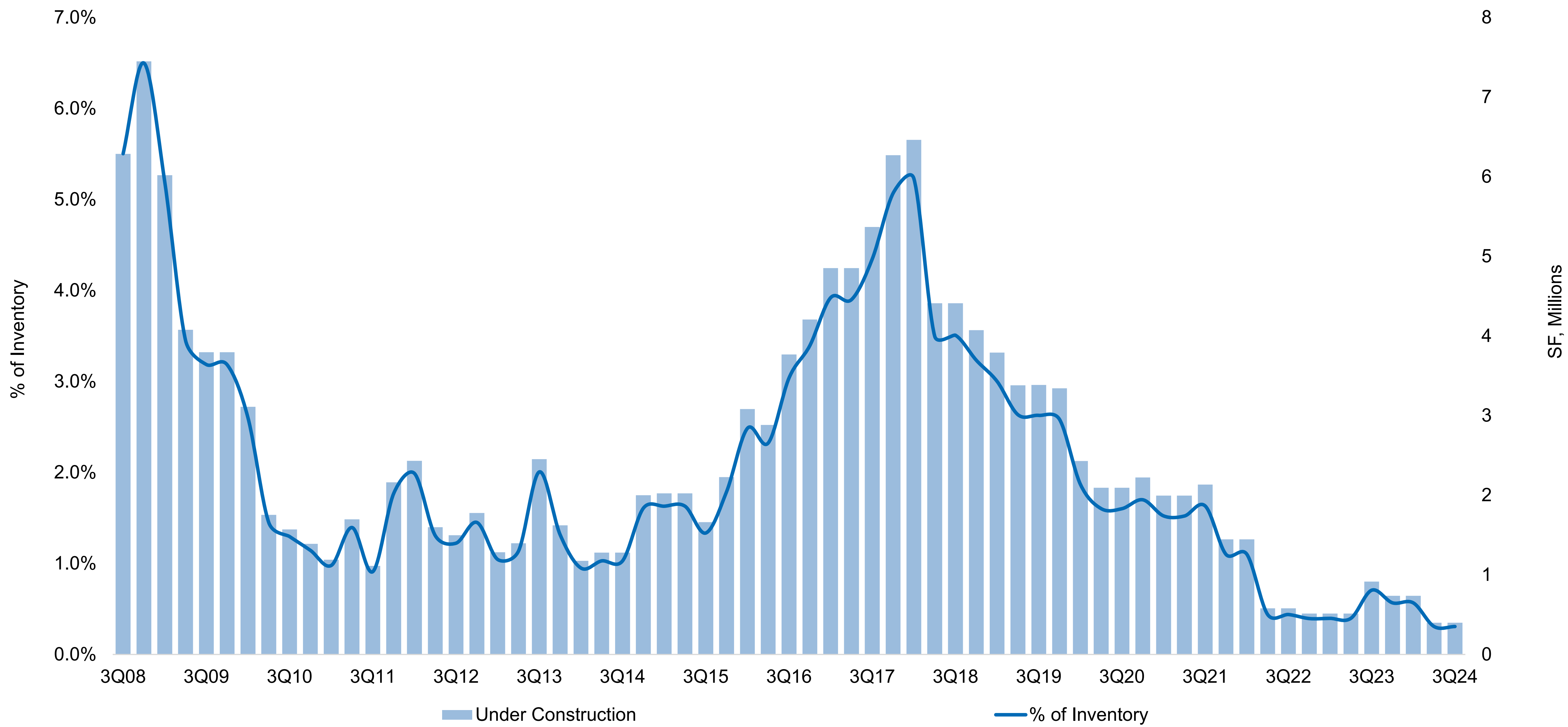


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The District of Columbia's development pipeline remains historically low, with no deliveries in Q4 2024. There is one project under construction totaling 400,000 SF. This development, 600 Fifth, 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. Limited new supply and strong pre-leasing will help ease rising vacancy.

Office Under Construction and % of Inventory

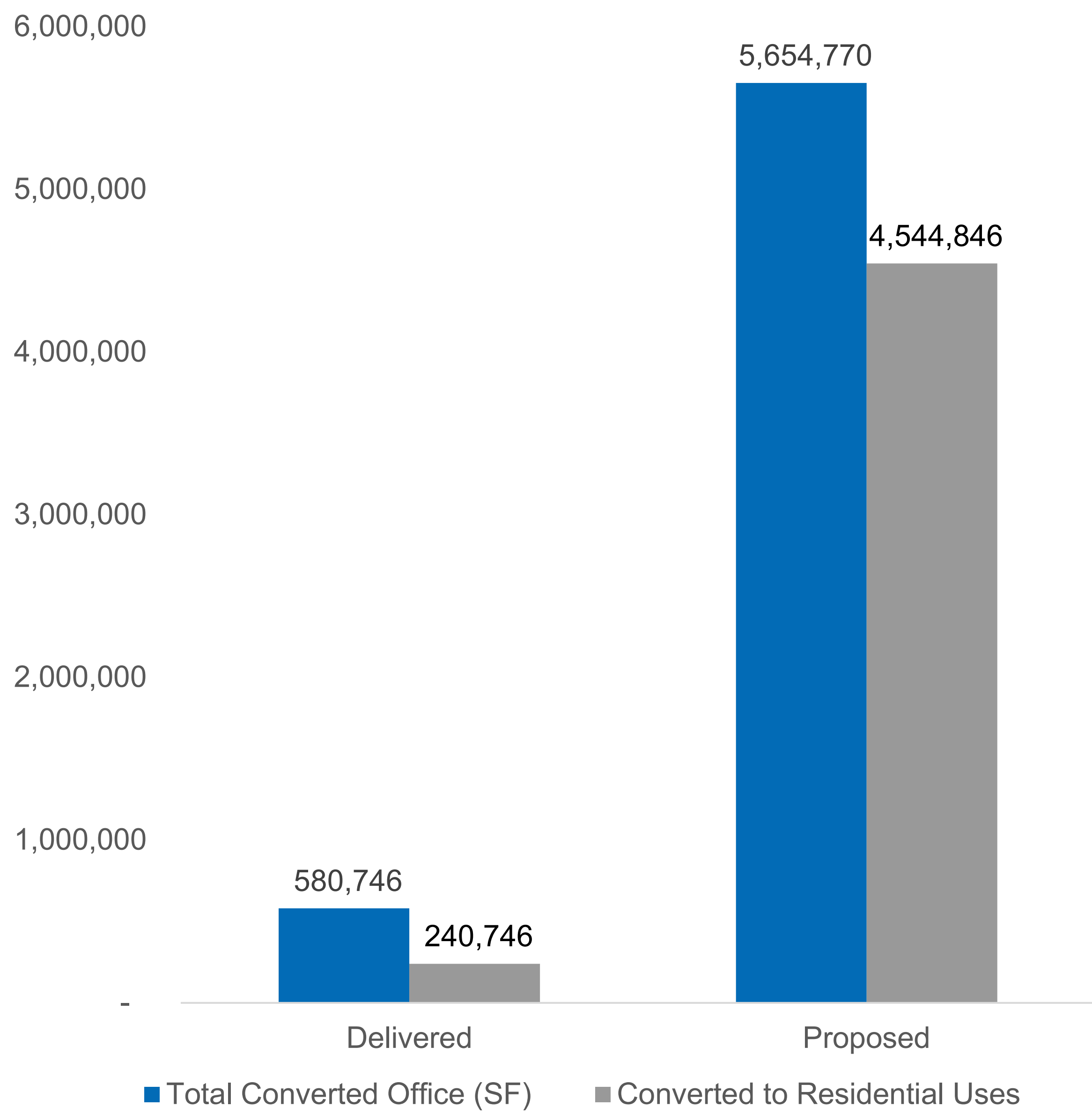


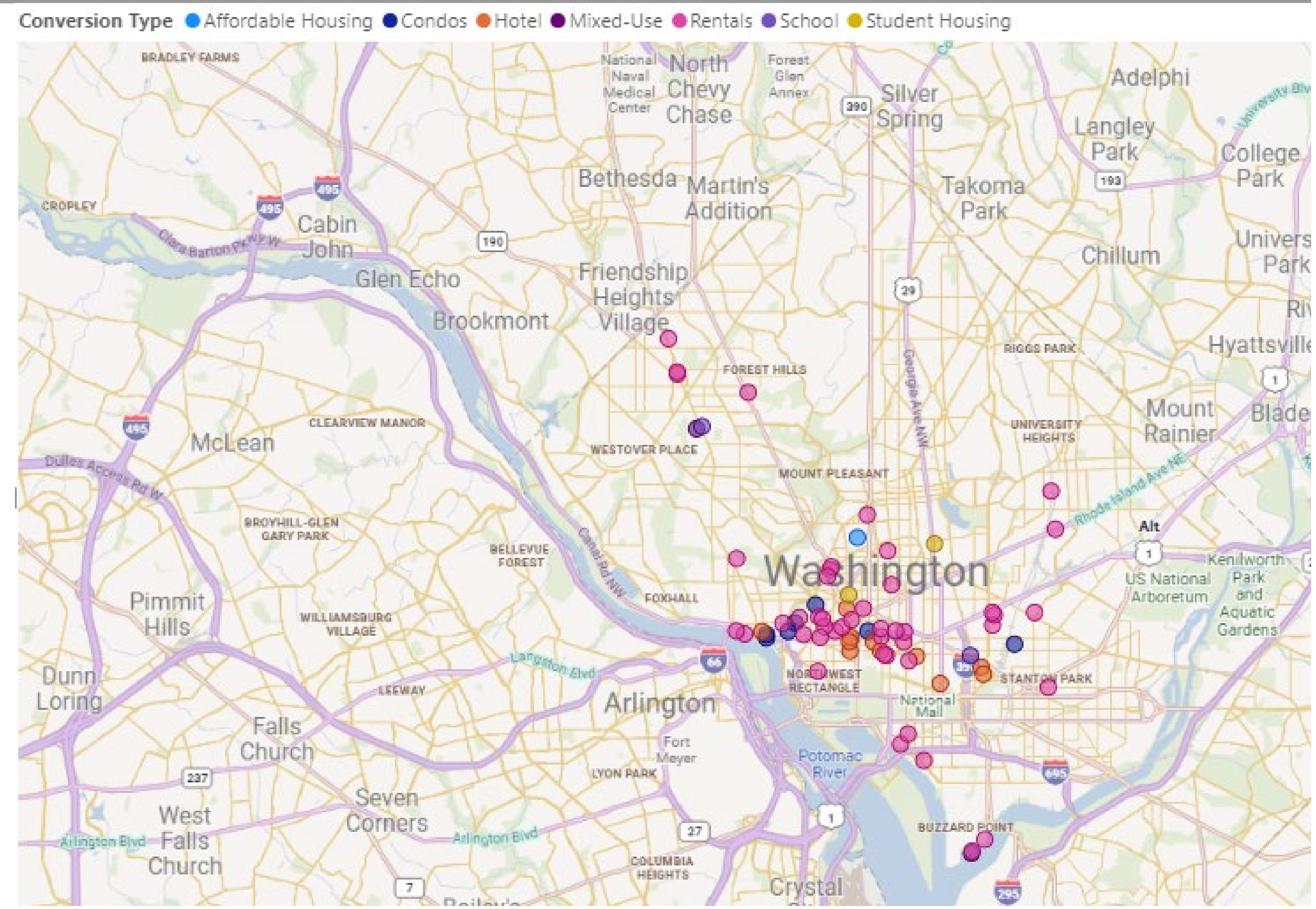
Source: Newmark Research, CoStar

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

Since 2020, 6.2 million SF of office space has been, or is in the process of being converted to other uses. Historically, 240,000 SF of the 580,000 SF of office space that has been removed in the District of Columbia was converted into residential uses. Looking forward, approximately 5.7 million SF of office space is proposed to be converted into other uses, with 4.5 million of that space being converted into residential.

DC Office Conversions Delivered or Proposed After 2020



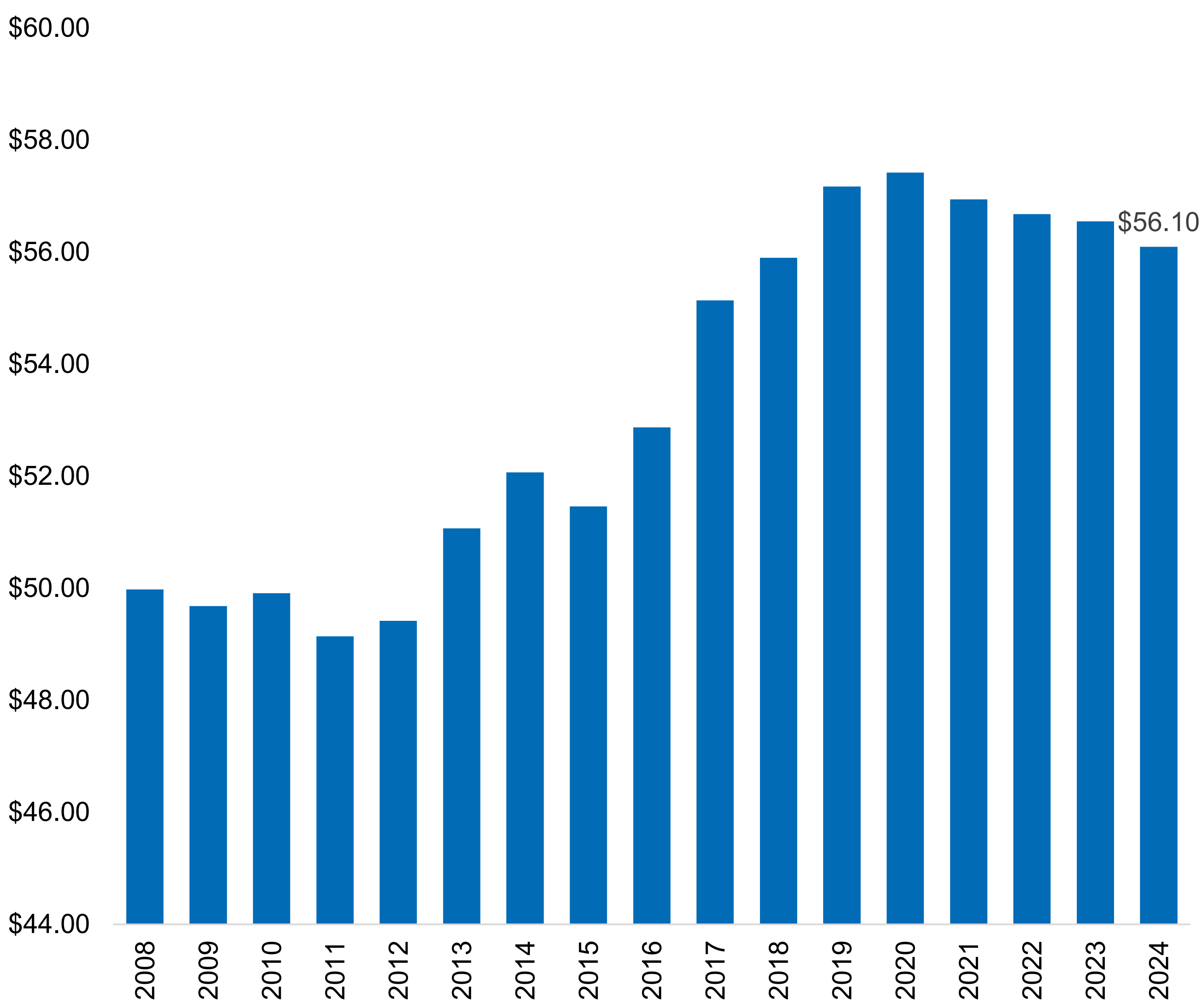


Source: Newmark Research.

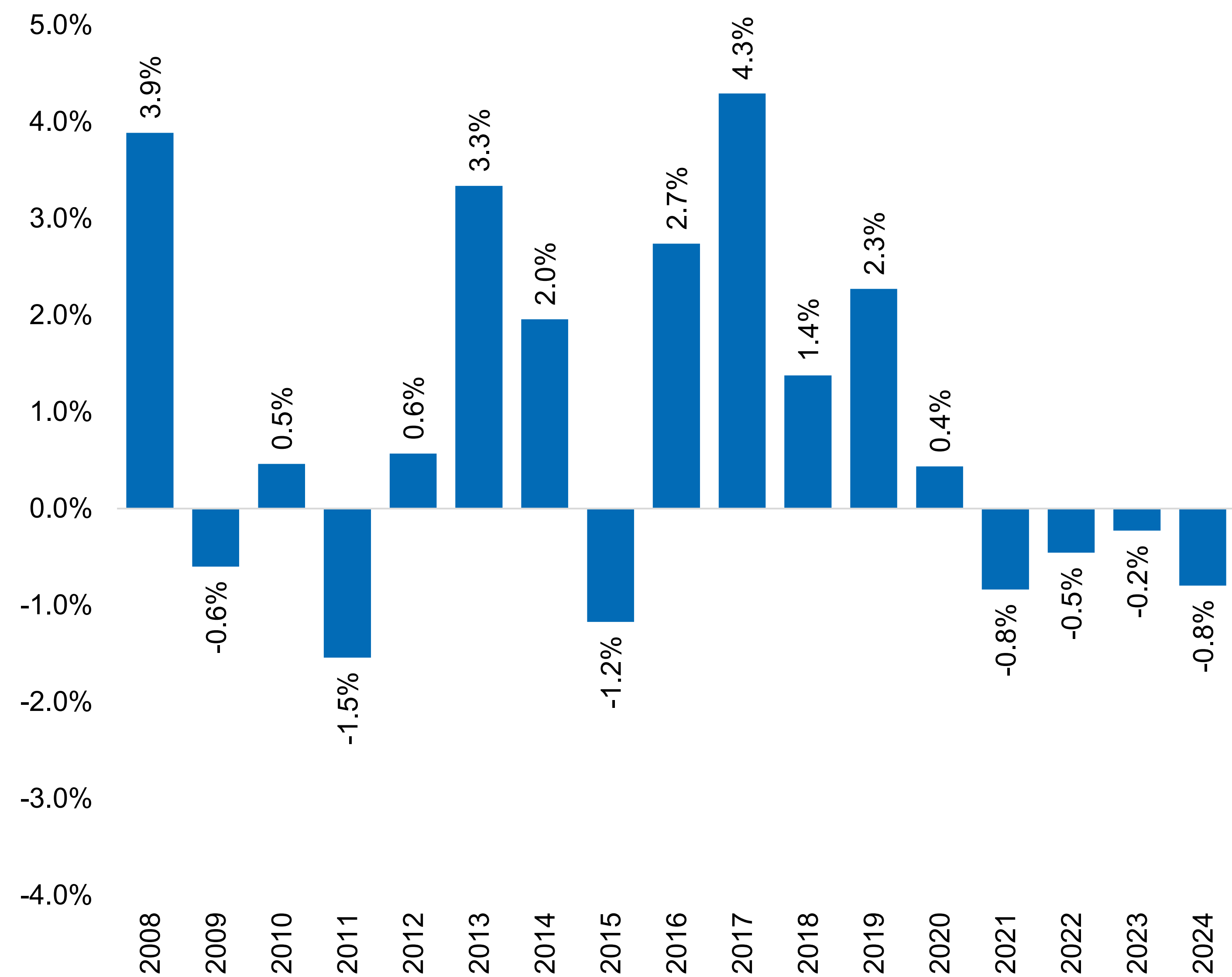
District of Columbia Asking Rents Experiencing Modest Decline

Asking rental rates have been decreasing year-over-year since 2021. The District of Columbia has not experienced sustained annual losses in asking rents since the Global Financial Crisis, but even then, it took two years for rates to noticeably drop in 2011. Continued limited demand—and in some cases, a lack of capital for concessions—has placed downward pressure on asking rents in the District.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

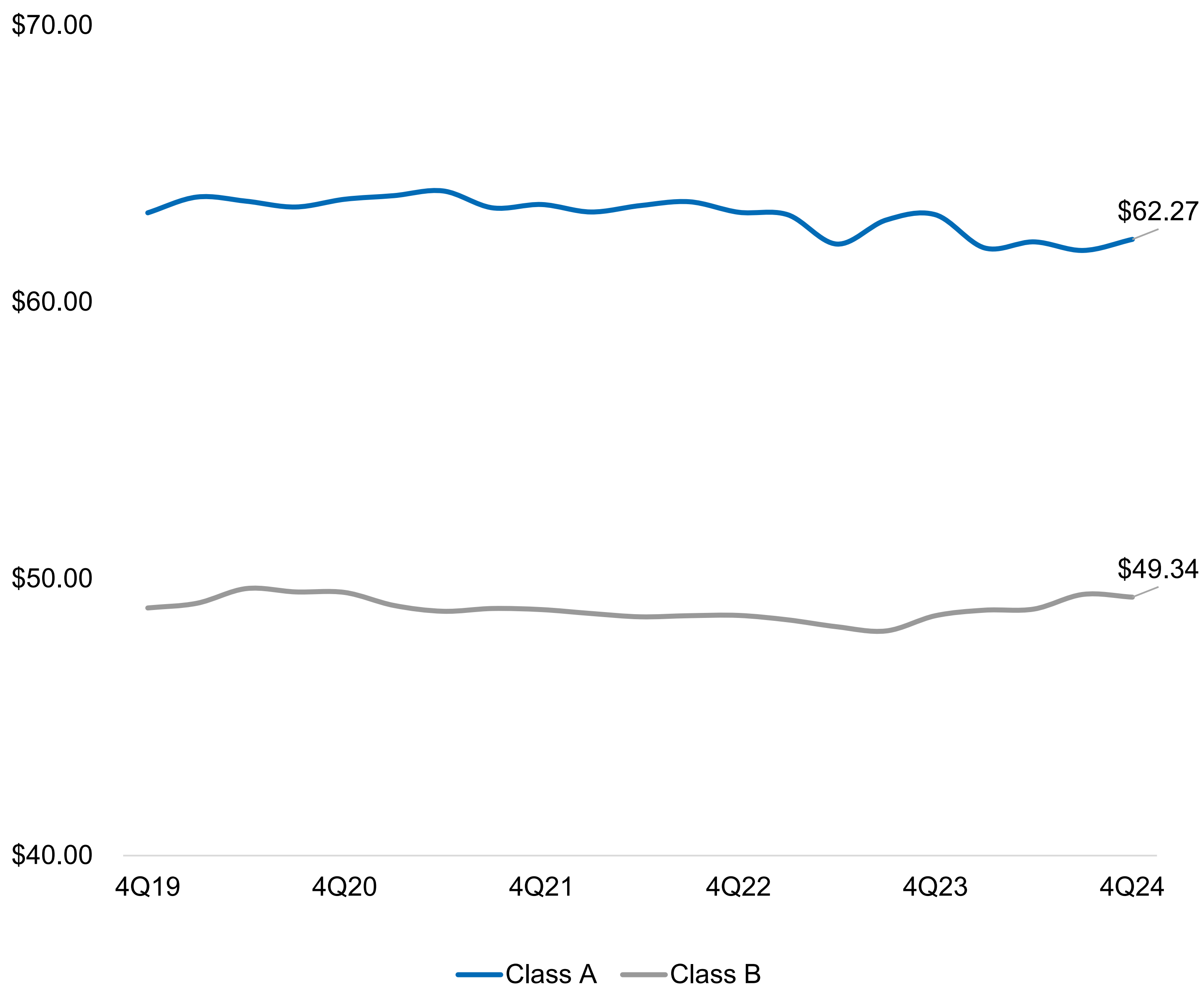


Source: Newmark Research

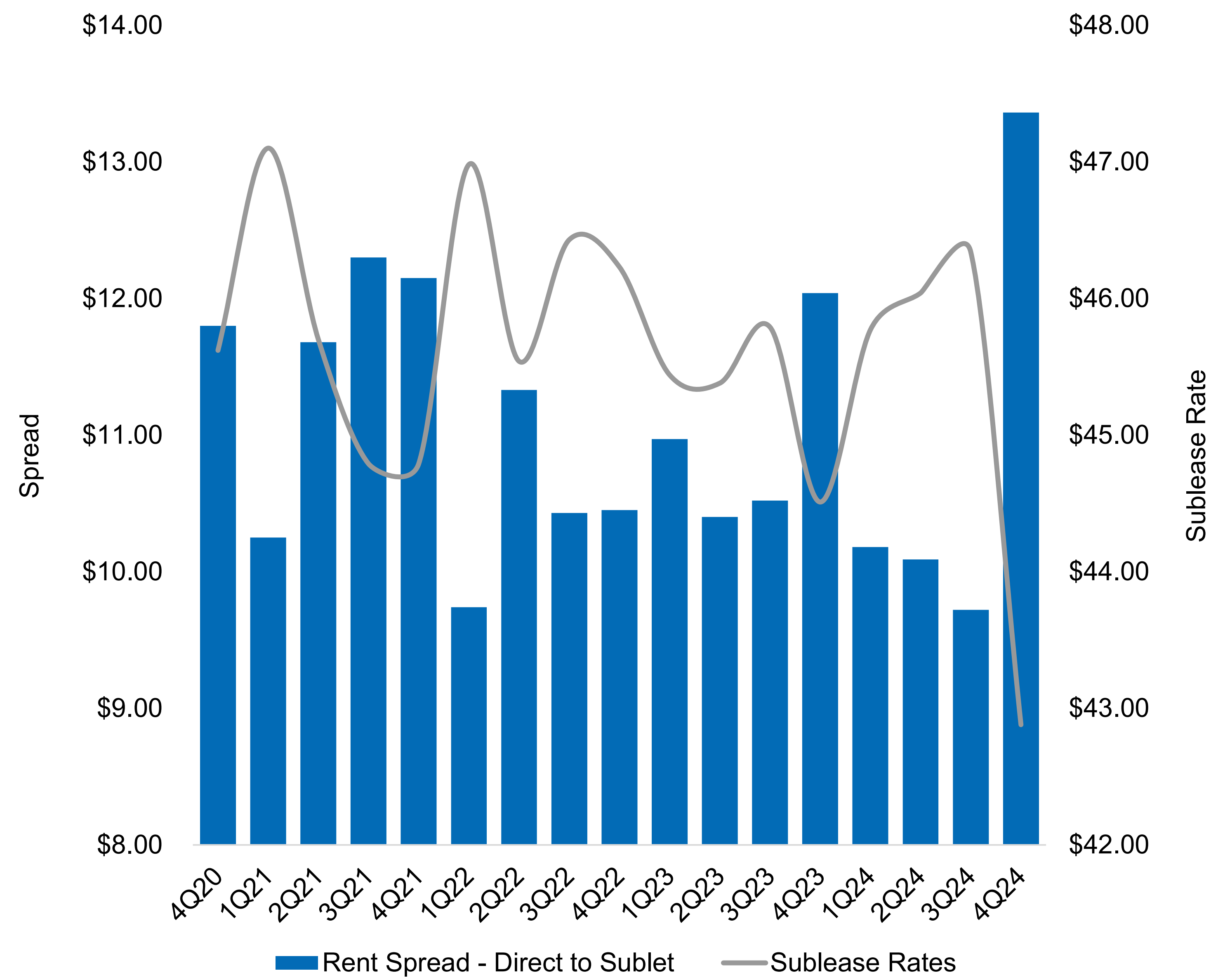
Spread Between Class A and Class B Asking Rents Increases

Overall, asking rents have decreased slightly during 2024. Class A rents were the cause of this, as they have declined 1.4% year-to-date, while Class B rents have increased 1.4%. Over the last five years, both Class A and Class B rents have remained relatively flat. The rent spread between direct and sublet deals has increased in the fourth quarter to around $13, after having spiked in 2020 and 2021 when it hovered around $12 to $14.

Class A and Class B Asking Rents



Sublease Rates

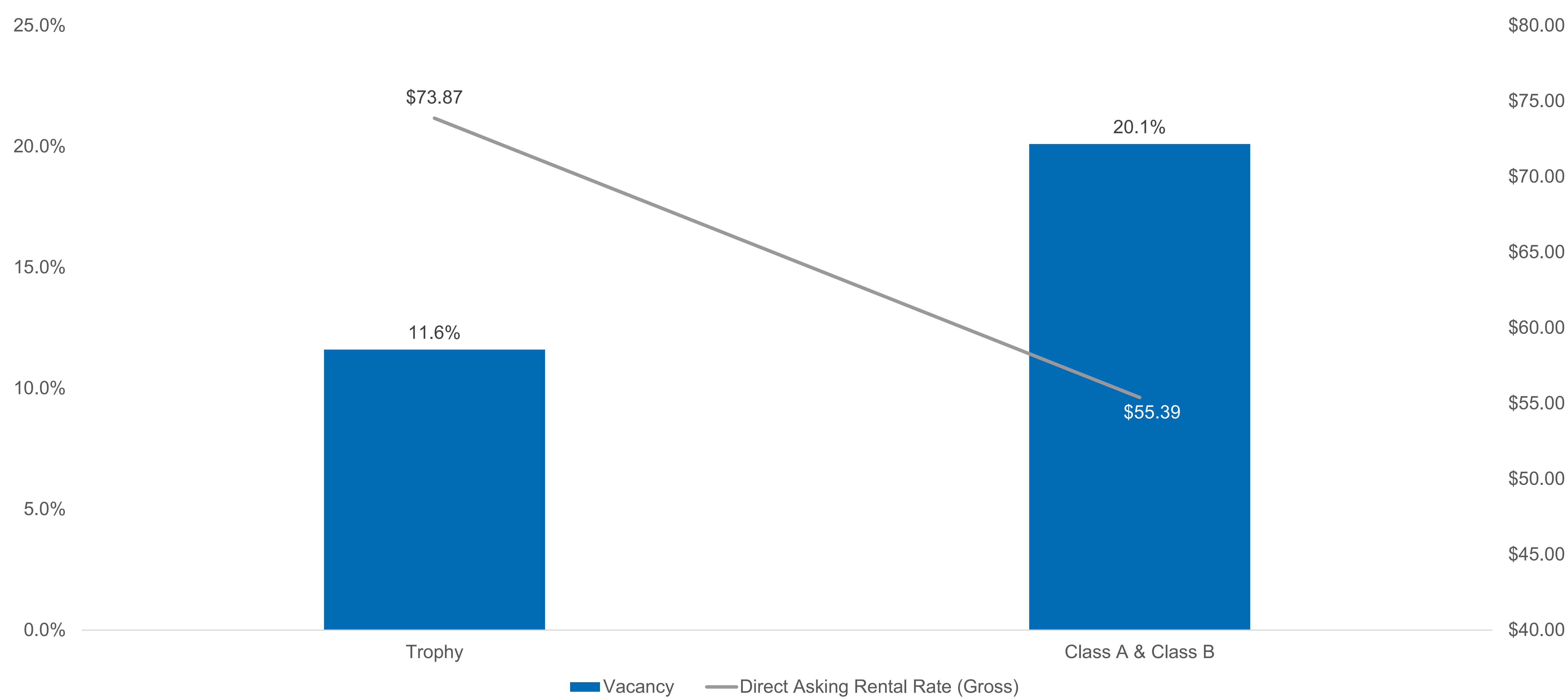


Source: Newmark Research

District of Columbia Trophy Office Outperforms Class A & Class B

The District of Columbia, like many other office markets, is experiencing a bifurcation of performance across classes. "Flight to quality" is a pervasive trend and is especially observed among trophy assets. The limited inventory of trophy class assets will lead to further decreases in available space and increases in asking rents.

Vacancy and Rental Rates By Office Class, Q4 2024

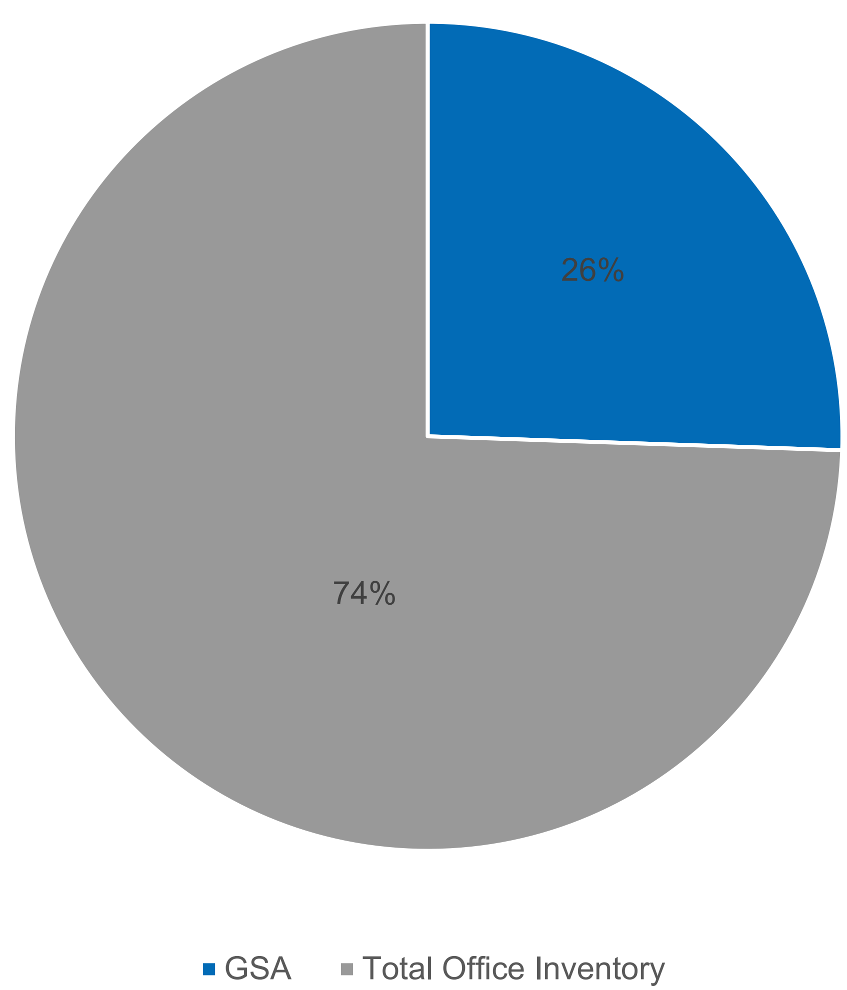


Source: Newmark Research.

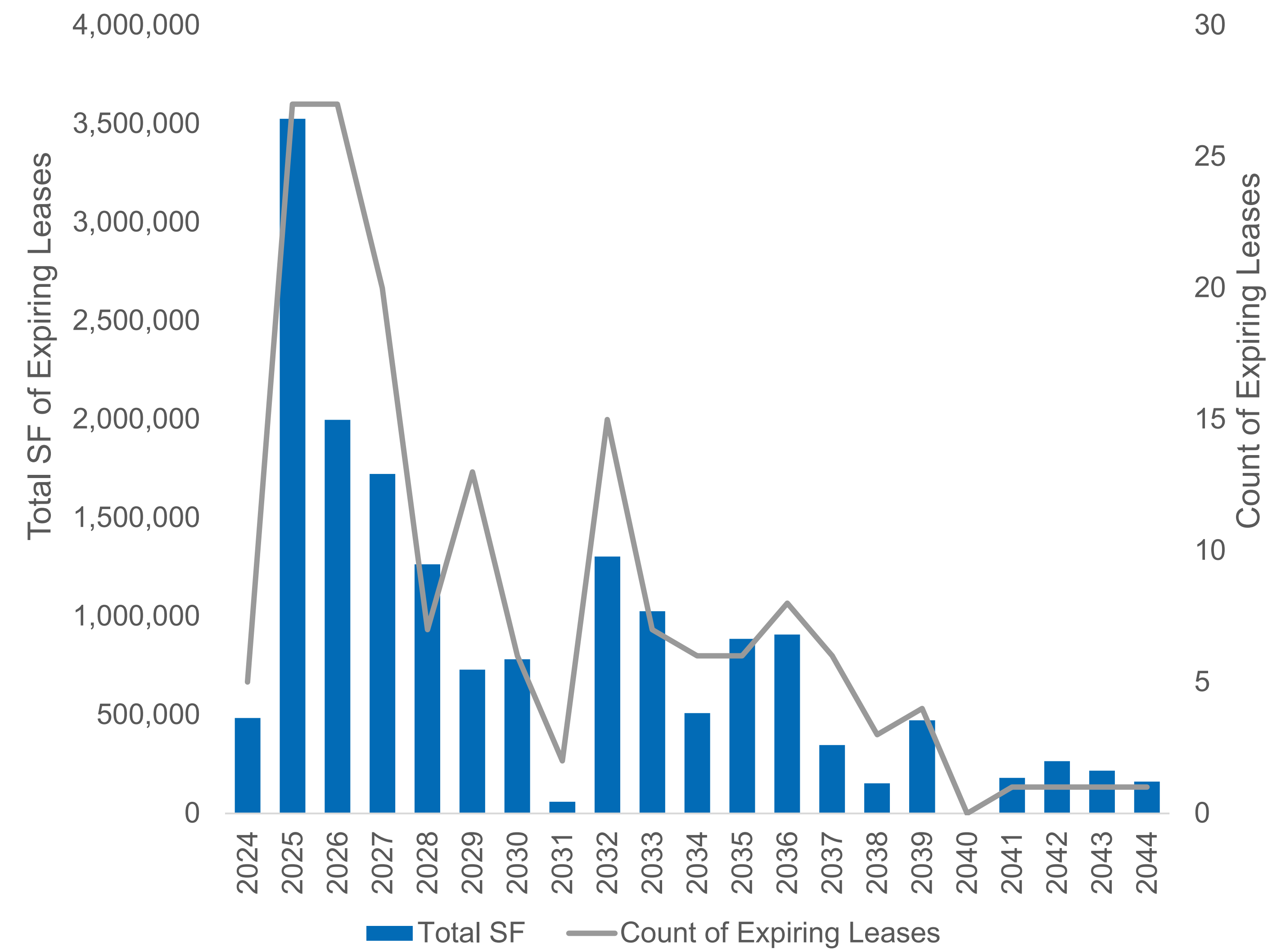
The District Will Experience 10 Million SF of GSA Leases Rolling by 2029

The GSA leases roughly 26% of all leasable space in the District. Approximately 4.0 MSF of GSA leased space will roll by the end of 2025 in the District. Short-term deals will have to be made as federal agencies are unable to downsize quickly and often requires input from the senate.

GSA Leased SF Compared to Total Market Inventory



GSA Lease Expirations by Year



Source: Newmark, GSA
*Data as of 3Q24

Leasing Activity Dominated by New Law Firm Deals

New law firm deals dominated leasing activity in the fourth quarter. The five largest leases totaled roughly 370,000 SF of leased space in the District, highlighting large firms' commitment to the market.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Holland & Knight	800 17th Street, NW	CBD	Lease Renewal	154,272
McDermott	700 11th Street, NW	East End	Direct Lease	125,000
Freshfields	1100 15th Street, NW	CBD	Direct Lease	123,000
Arent Fox Schiff	1100 15th Street, NW	CBD	Direct Lease	120,000
Miller & Chevalier	900 16th Street, NW	CBD	Lease Renewal	90,000

Source: Newmark Research

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Submarket Stats

District of Columbia Market Overview

Market Statistics By Class

	Total Inventory (SF)	Overall Vacancy	Overall Availability	4Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Washington D.C.	**130,095,694**	**19.2%**	**25.4%**	**487,840**	**636,596**	**0**	**336,289**	**399,617**	**$56.24**
Class A	81,127,217	17.0%	23.7%	312,102	533,282	0	336,289	399,617	$62.27
Class B	44,863,040	23.3%	29.2%	313,290	340,313	0	0	0	$49.34
Class C	4,105,437	17.6%	16.2%	-137,552	-236,999	0	0	0	$41.05

Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	4Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Capitol Hill	5,393,778	21.0%	26.1%	185	50,845	0	0	0	$64.51
Capitol Riverfront	4,978,946	14.9%	20.6%	37,503	53,953	0	0	0	$56.88
CBD	40,535,177	21.2%	27.7%	66,776	220,016	0	336,289	0	$56.19
East End	42,436,149	21.2%	29.6%	397,404	362,420	0	0	399,617	$58.27
Georgetown	2,782,973	23.3%	30.5%	6,421	-21,062	0	0	0	$54.55
NoMa	11,717,348	11.8%	18.8%	28,252	-167,232	0	0	0	$49.82
Southwest	13,005,941	15.4%	15.4%	-44,514	-5,286	0	0	0	$51.65
Uptown	5,245,048	15.5%	16.5%	-8,138	117,417	0	0	0	$44.00
West End	4,000,334	17.8%	21.4%	3,951	25,525	0	0	0	$58.37

Source: Newmark Research

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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