4Q24

Washington Metro Office Market Overview

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.
- 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 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 sale of the quarter. One 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. The other notable sale of the quarter was 2100 Reston Parkway in Reston with Newmark representing the seller. This roughly 170,000 SF building built in 2001 was sold to an individual buyer from Moore & Associates for $14.3 million or $85 PSF. At the time of sale, 2100 Reston Parkway was 81% occupied. It last sold in December 2019 for $33.4 million or $198 PSF.

Leasing Market Fundamentals

- Net absorption for the region roughly totaled positive 1.2 MSF during Q4 2024. The District, Northern Virginia, and suburban Maryland all experienced positive net absorption to end the year on a high note across all three markets.
- Overall vacancy decreased 30 basis points to 21.0% from the third quarter of 2024, however, this is a 90 basis point increase from the year prior. Availability also contracted, ending 2024 at 24.9%, down 80 basis points from last quarter and 30 basis points year-over-year.
- Major second-quarter transactions were spread throughout the metro, with three of the five largest deals occurring in the District. The remaining two deals occurred in Northern Virginia.
- After five deliveries throughout 2024 totaling roughly 1.2 MSF, the office construction pipeline ended the year at 950,000 SF under construction spread across a further five properties.

Outlook

- This past year has seen an uptick in unconventional investors entering the metro office market as many smaller firms can now afford to purchase assets at the current discounted pricing.
- 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. There are fewer owners offering trophy office supply, fostering an unusual landlord-favorable environment for the most quality space.
- 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. This, in tandem with increasing tenant demand, will likely lead to a decrease in vacancy throughout 2025.

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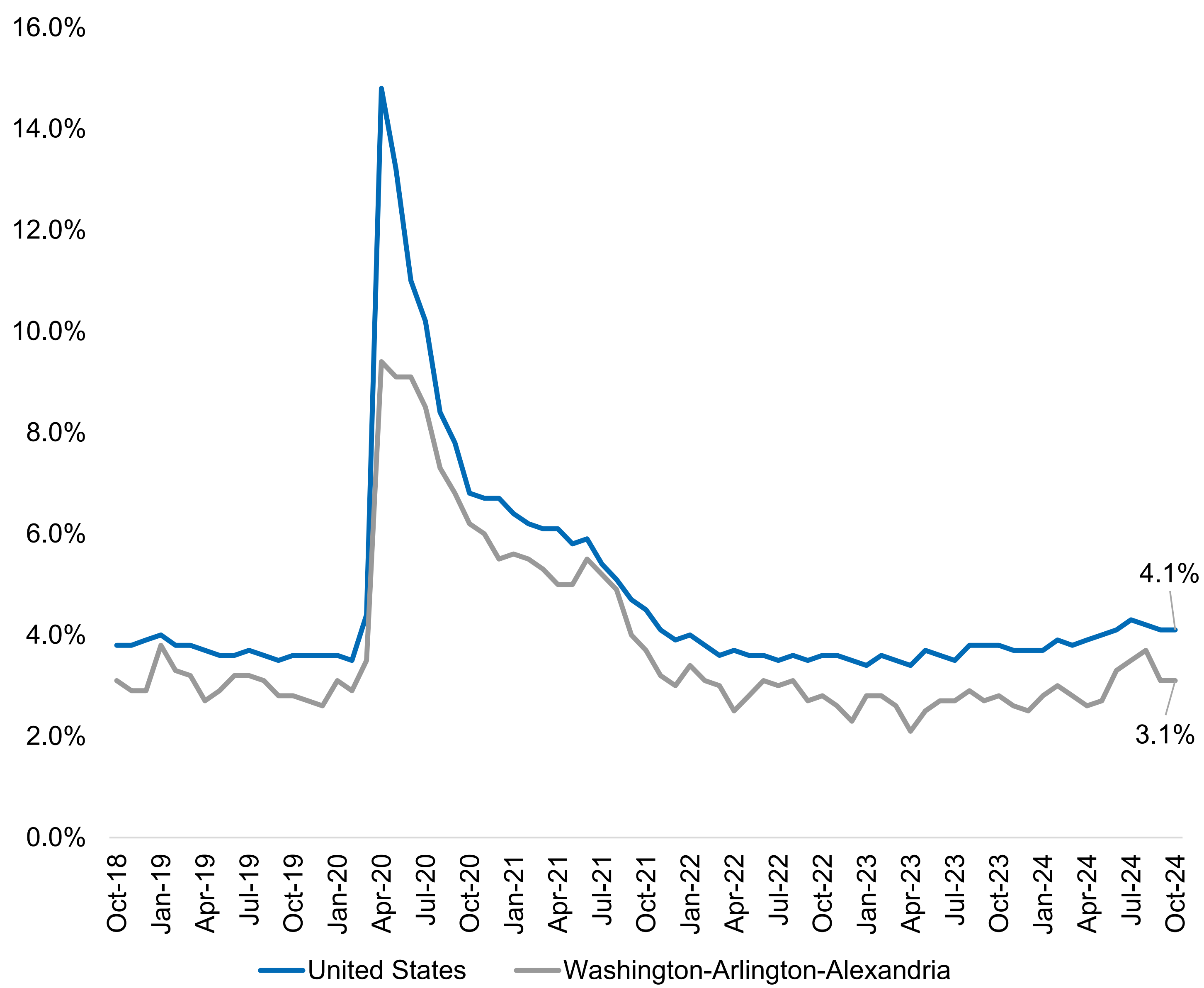
Economy

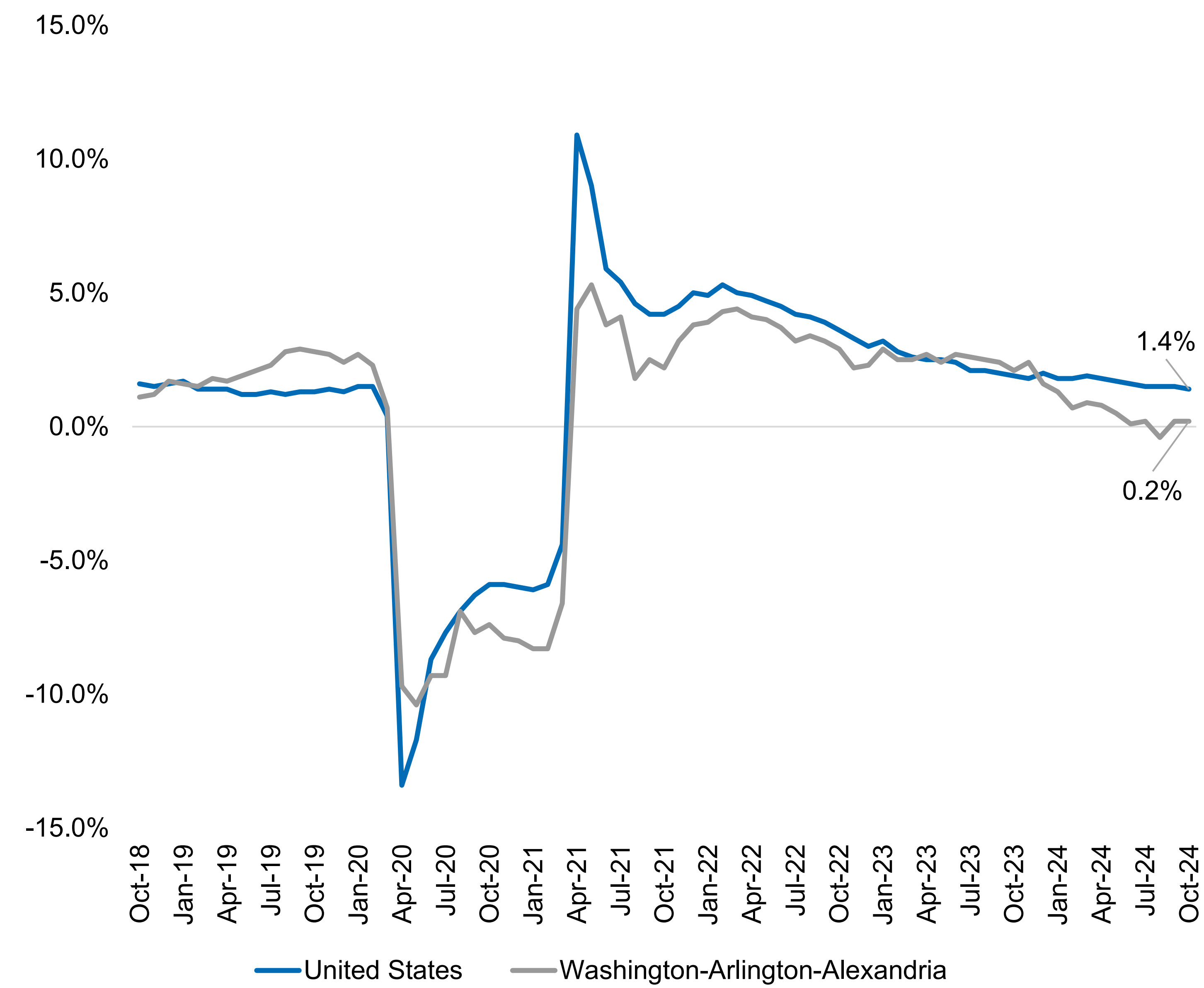
Metro Employment Job Growth Rebounds from Negative Territory

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

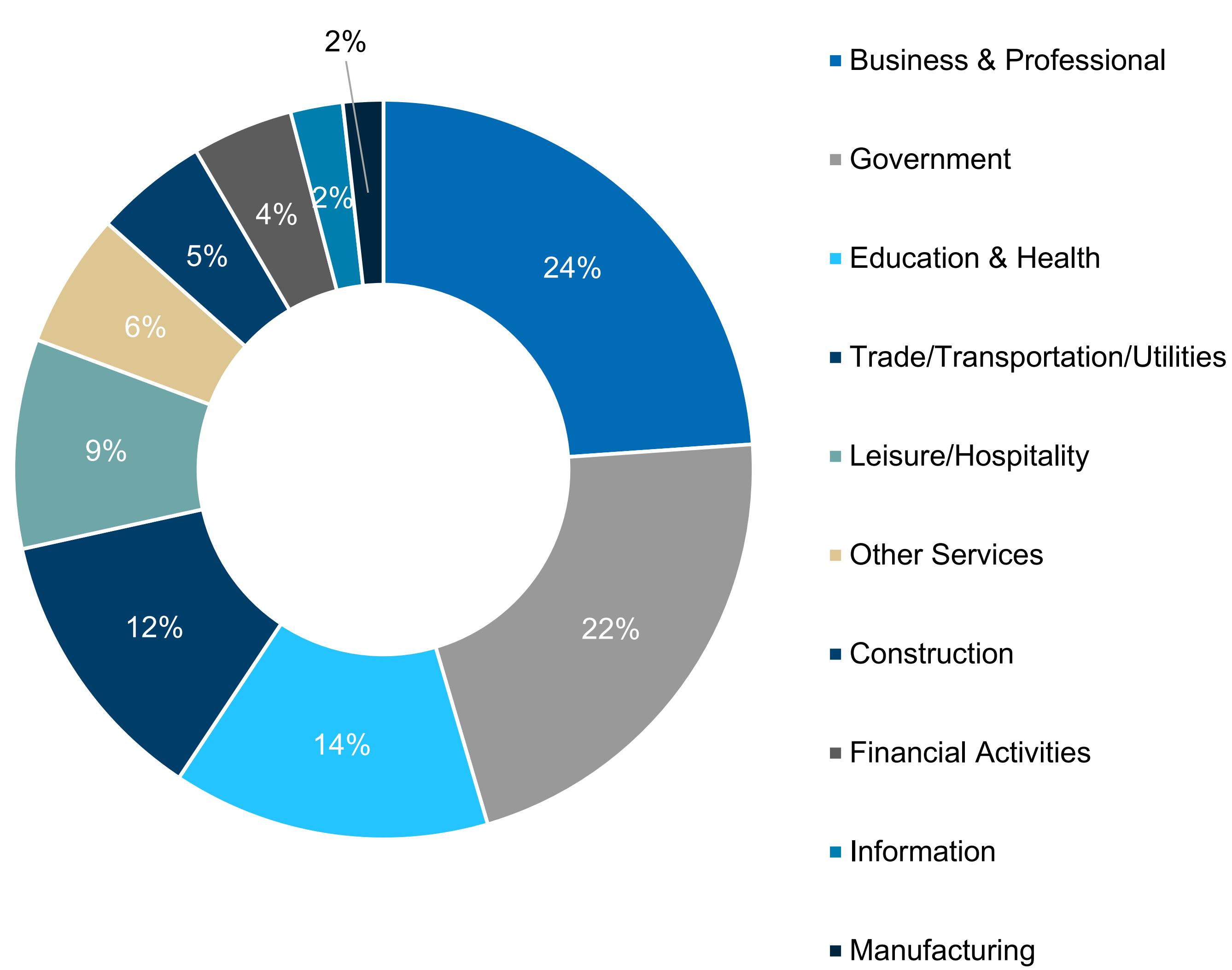


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

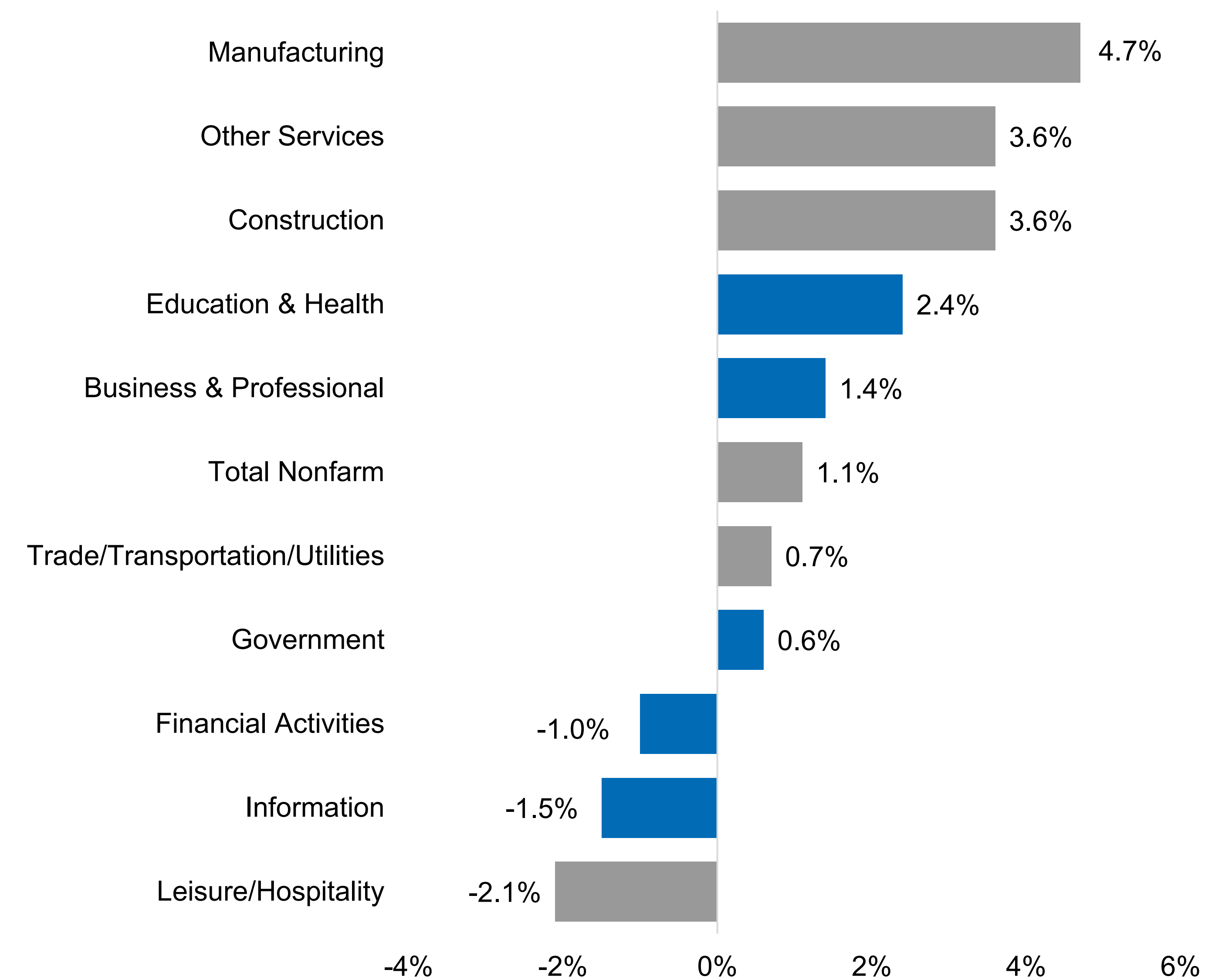
Business & Professional Services Sector Experienced Positive Annual Growth

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

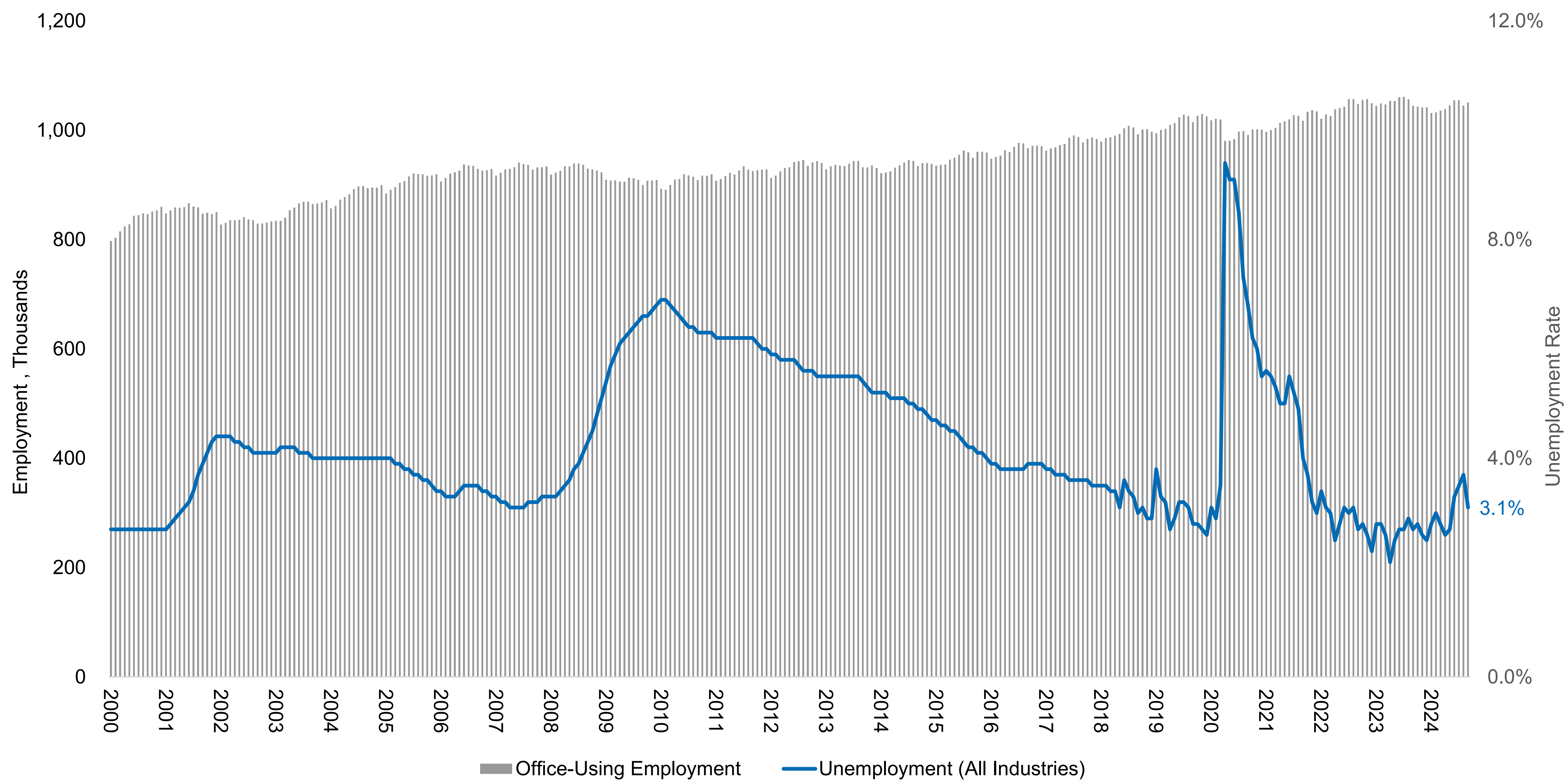


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
Note: November 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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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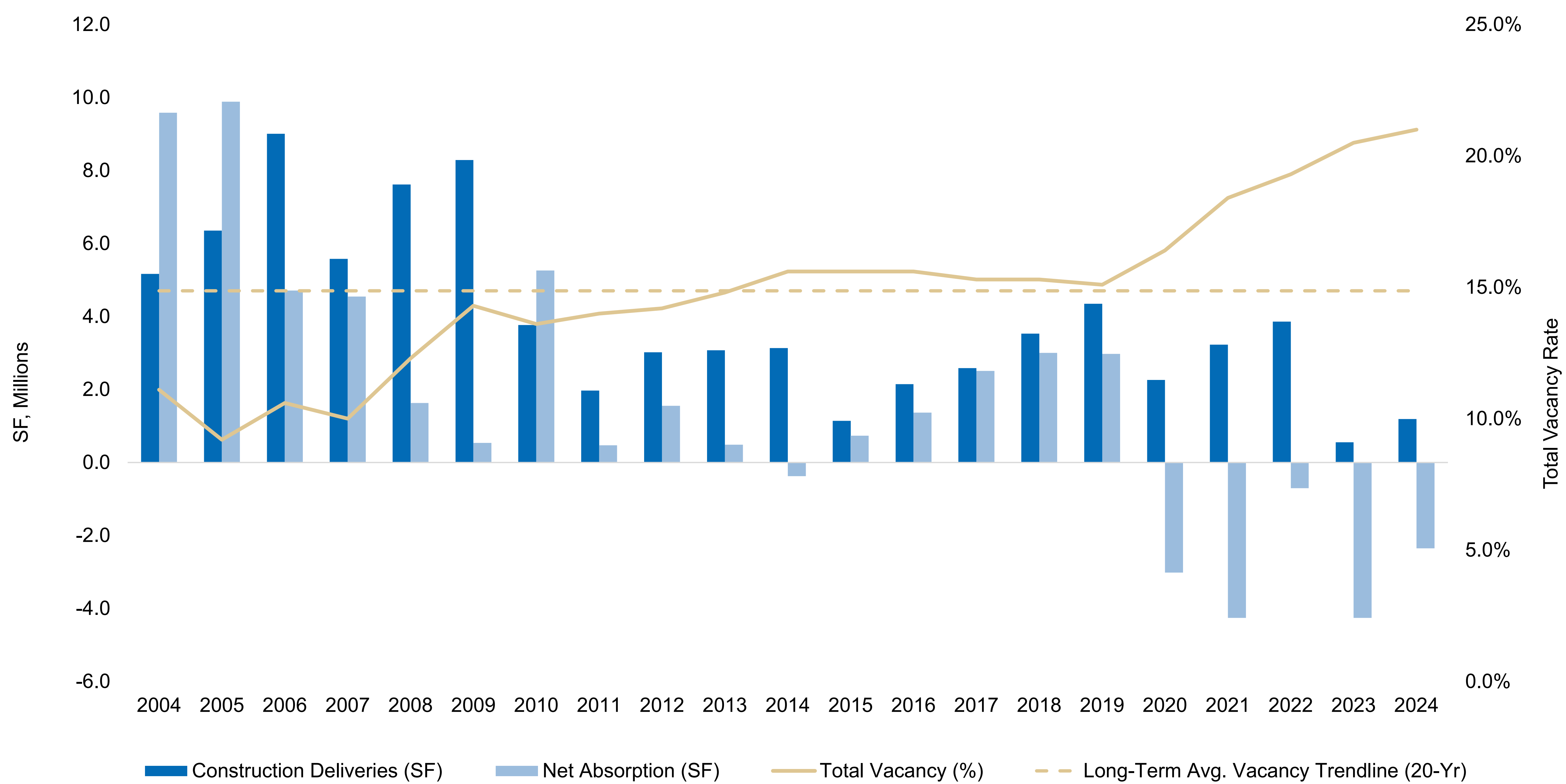
Leasing Market Fundamentals

Market Begins to See Slowdown in Vacancy and Construction Starts

The metro area vacancy rate rose 90 basis points throughout the year to end 2024 at 21.0%. However, the vacancy rate began to decline from the year-to-date peak of 21.3%. Although 4Q24 ended with over 1.1 MSF of positive absorption, the market experienced approximately 2.4 MSF of negative net absorption during the year. Roughly 1.2 MSF delivered in 2024. A slowdown in office deliveries and lack of new speculative office construction will be advantageous in decreasing vacancy across the market.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

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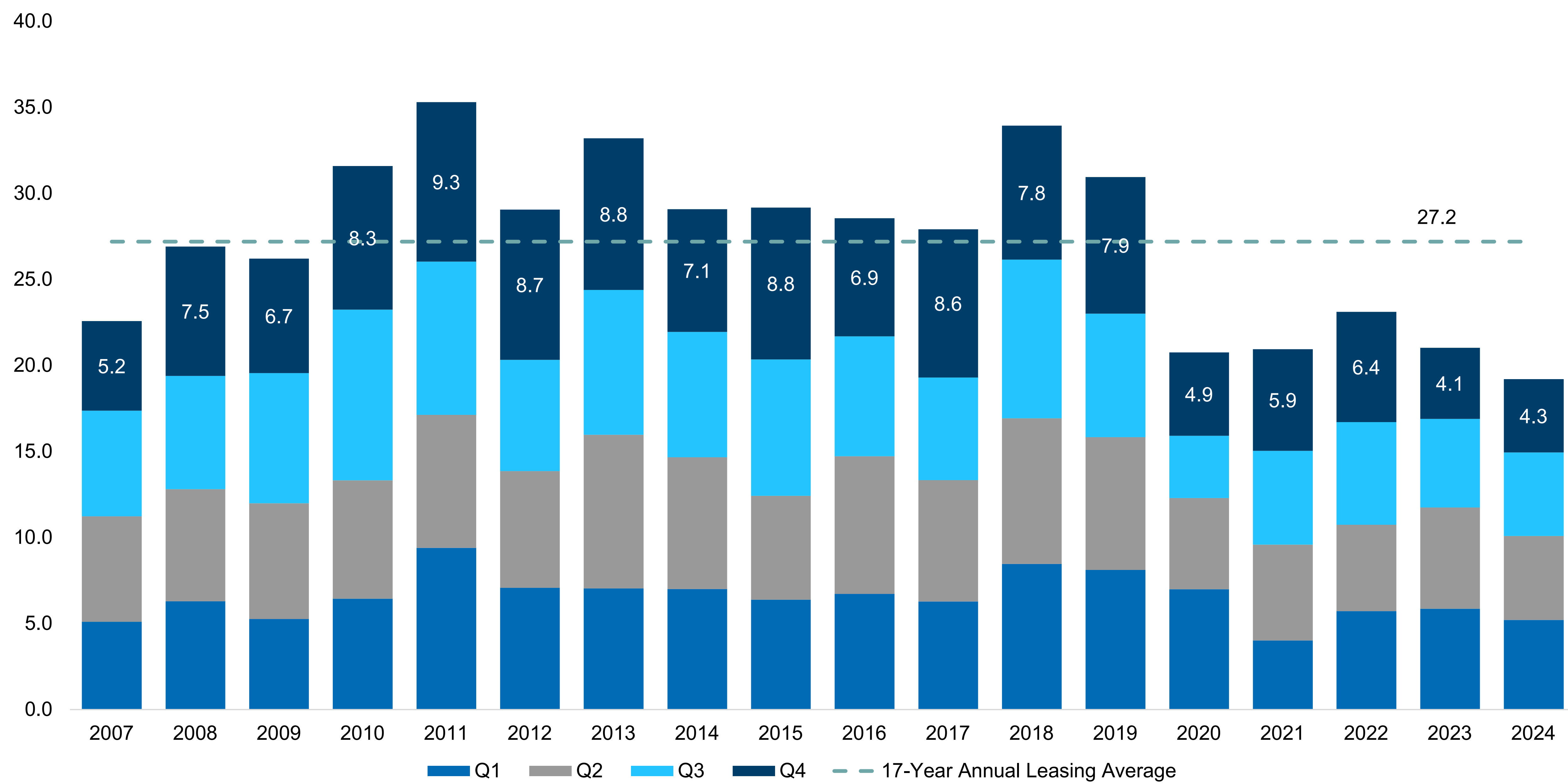
Total Leasing Volume Remains Steady for Fifth Consecutive Year

Leasing activity has slowed since 2020, although it picked up the pace slightly during 2022. During 2024, the market saw 19.2 MSF of leasing activity, slightly lower than 2023 and is well below the long-term annual average of 27.2 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)

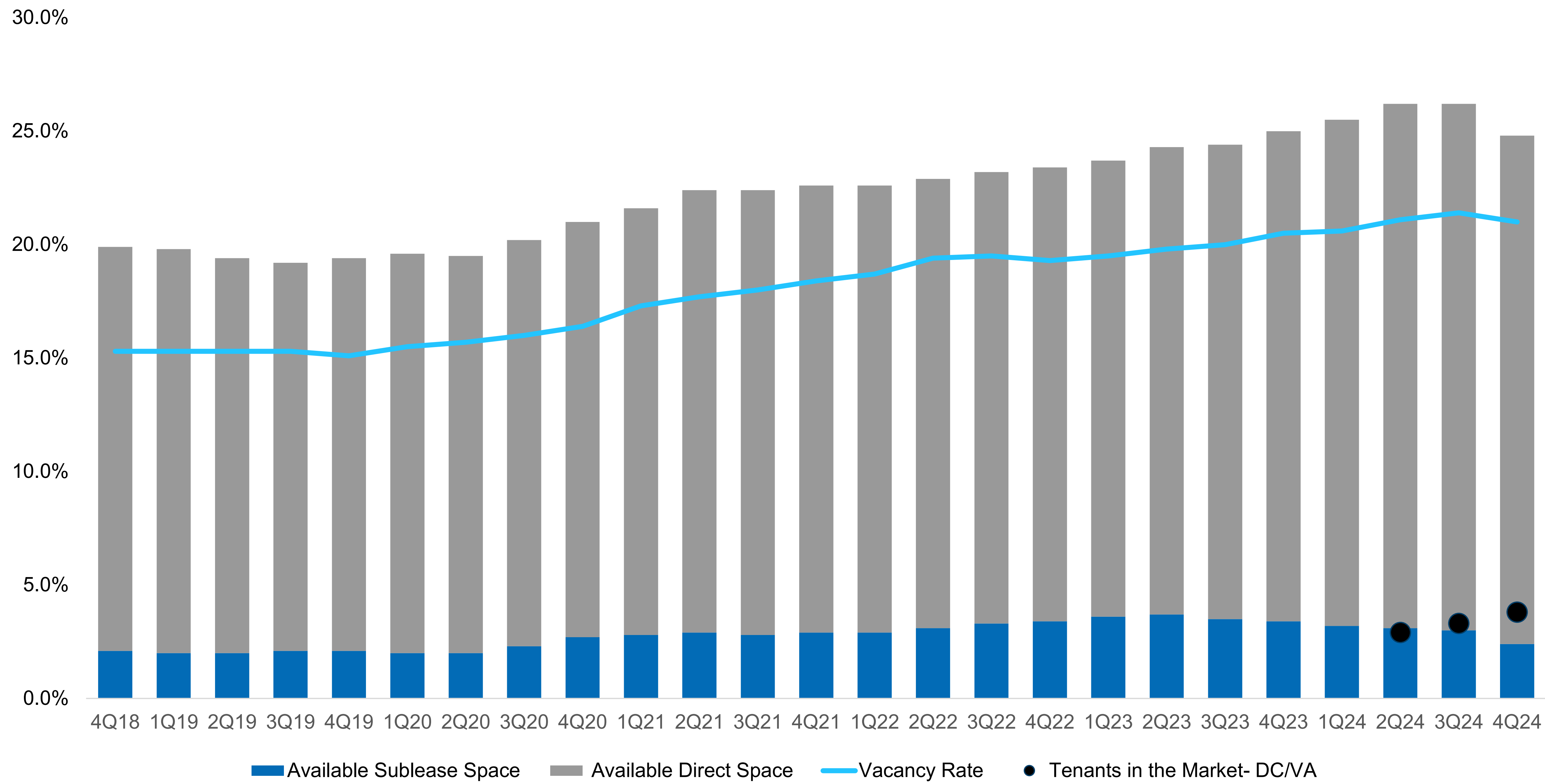


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space ended 2024 at 24.8%, a 140 bps decrease from the third quarter. Over the past six years, the direct availability rate has averaged 19.6% while the sublease availability rate has averaged 2.8%. The 2024 availability rates of 22.4% for direct space and 2.4% for sublease space are trending towards the long-term averages as tenant demand is increasing across the market.

Available Space and Tenant Demand as Percent of Overall Market

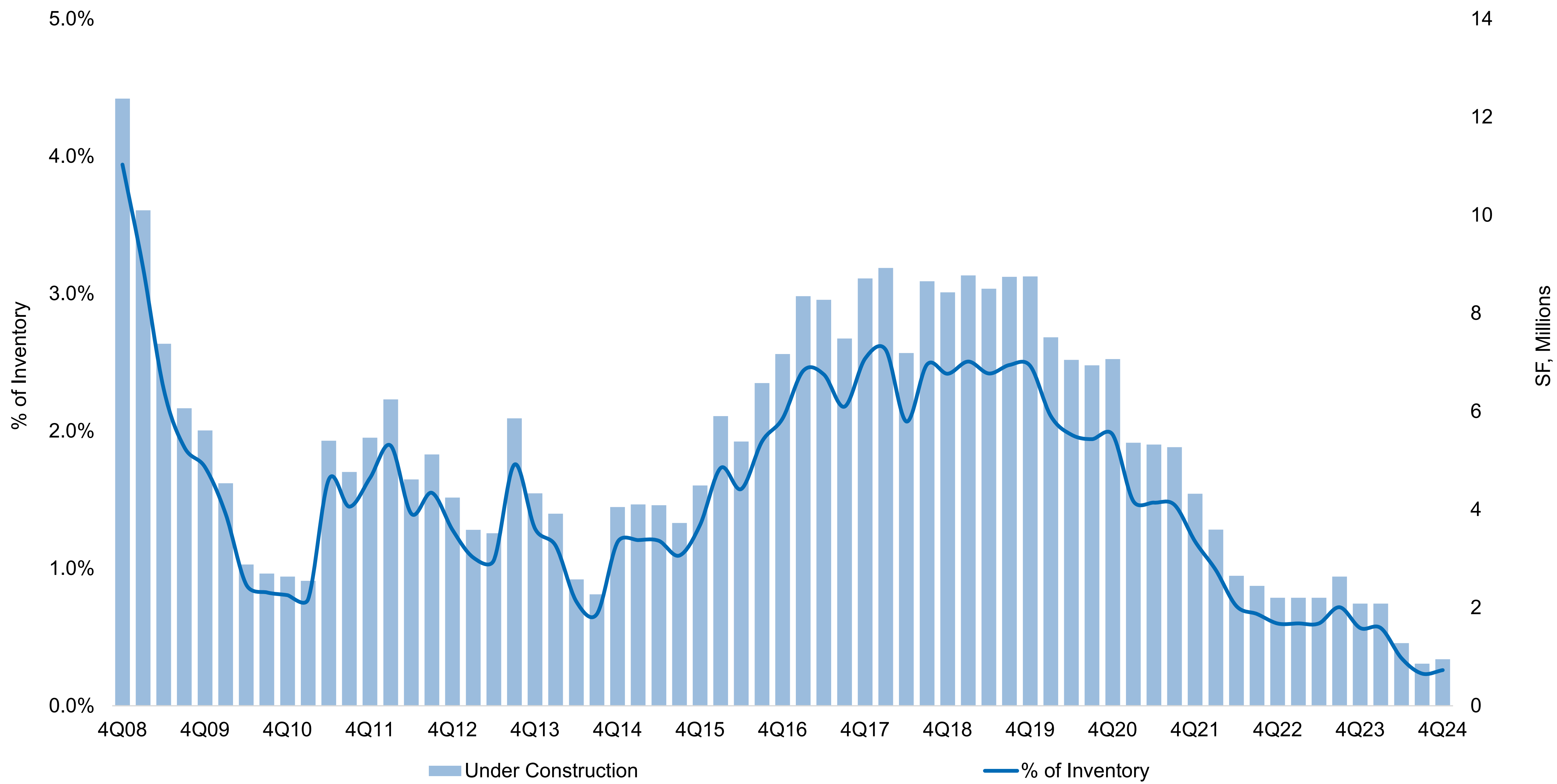


Source: Newmark Research

Deliveries Slow as Office Construction Pipeline Remains Limited

The Washington Metro area development pipeline remains historically low. Only two new projects broke ground this quarter, with both located in the Loudon One mixed-use development in Ashburn, VA. There are currently 5 office properties under construction in the region, well below the historical average of 21 properties under construction.

Office Under Construction and % of Inventory

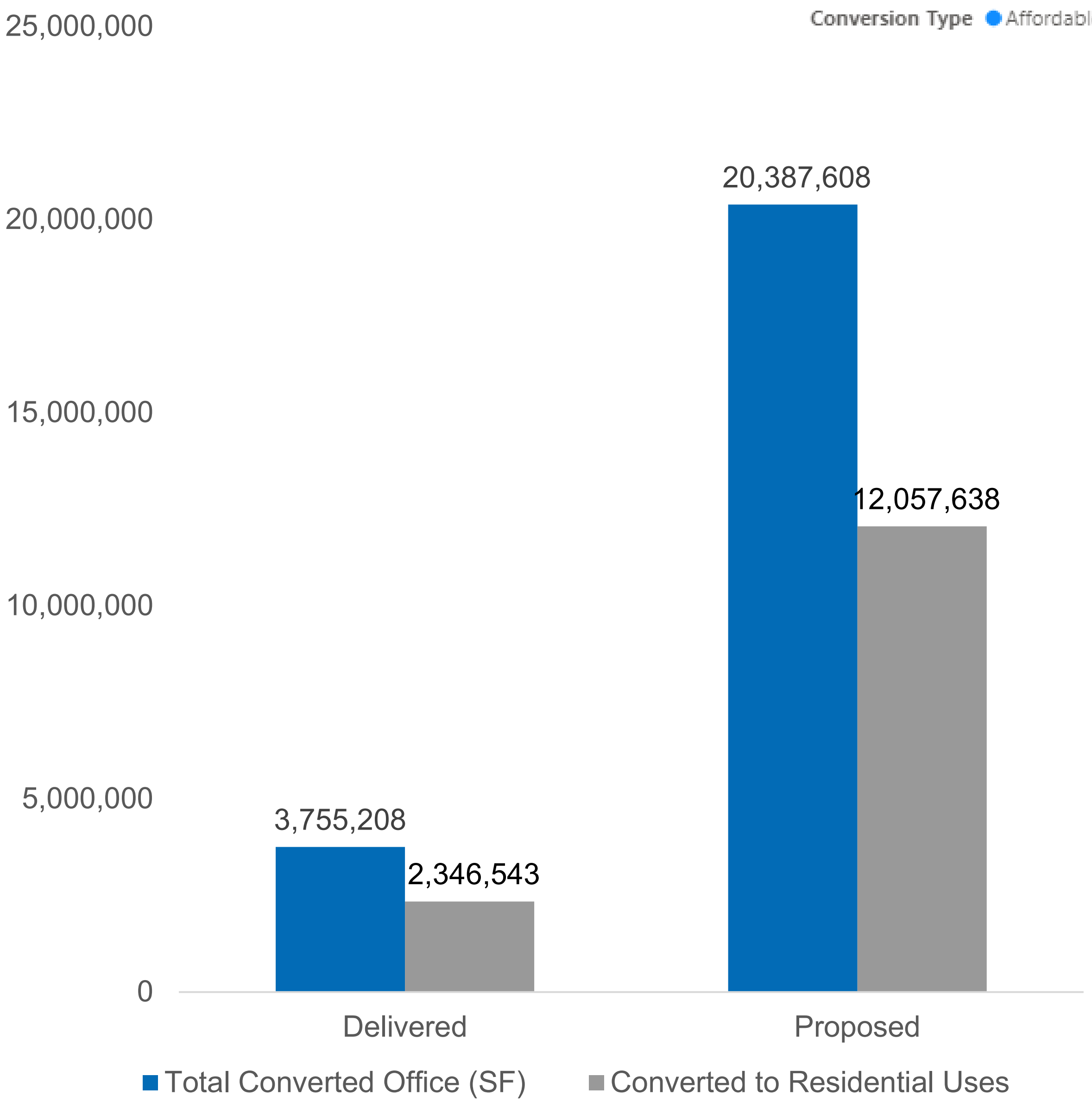


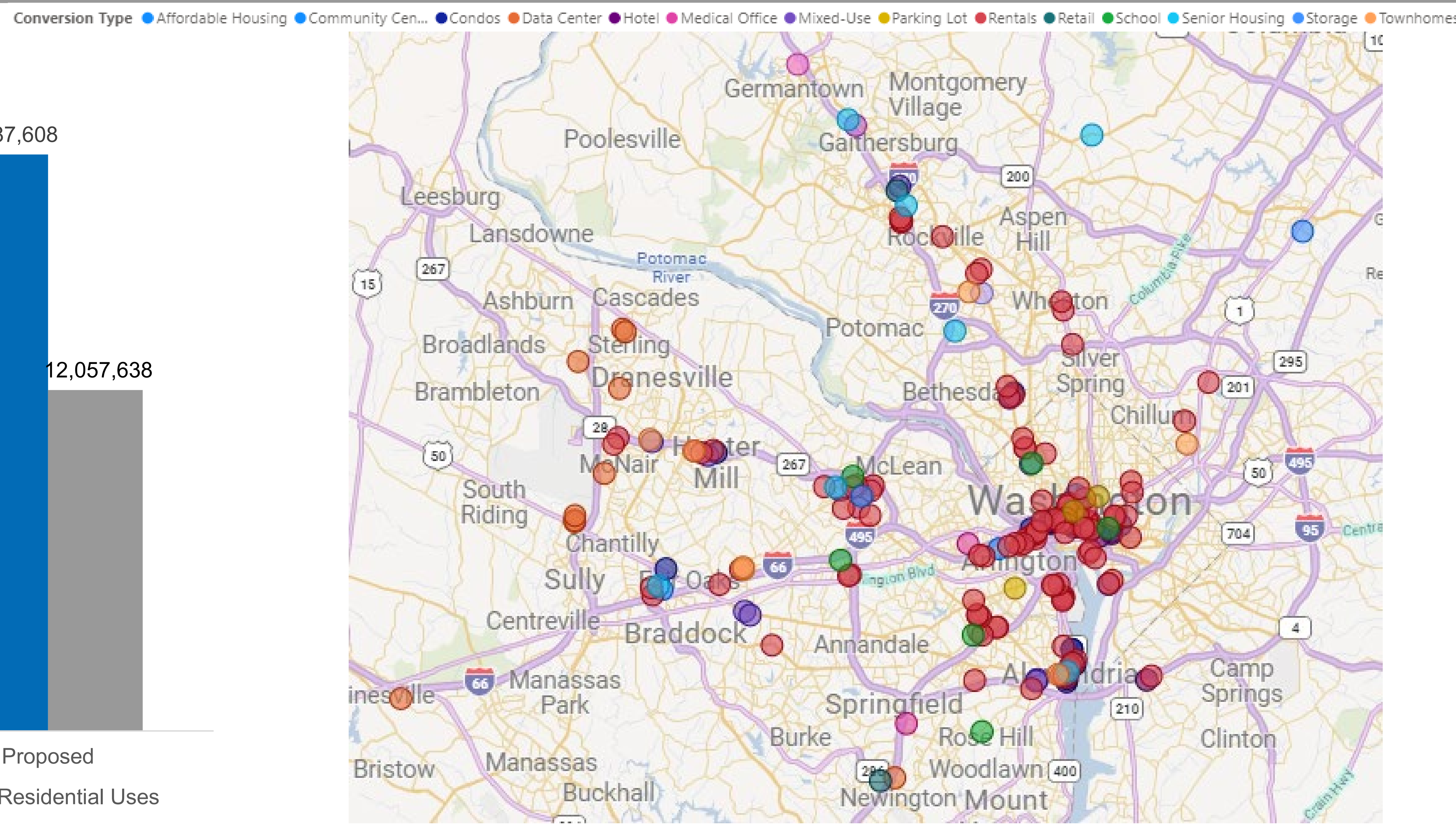
Source: Newmark Research, CoStar

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 20.4 MSF of office space proposed to convert. Historically, 2.3 MSF of the 3.8 MSF of office space that has been removed throughout the metro was converted into residential uses. Looking forward, approximately 12.1 MSF of the 20.4 MSF is proposed to be converted into residential uses.

DC Metro Office Conversions Delivered or Proposed After 2020



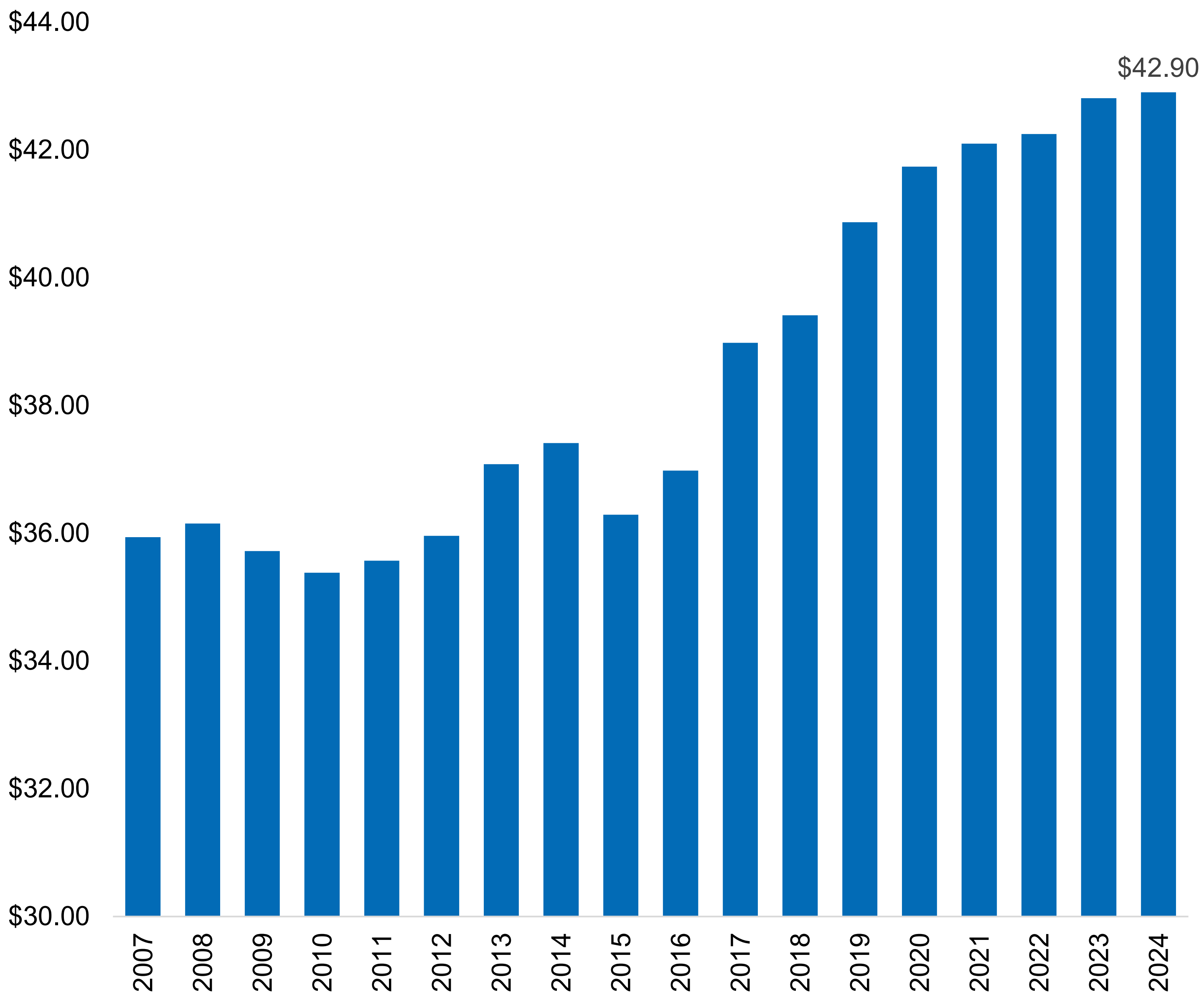


Source: Newmark Research.

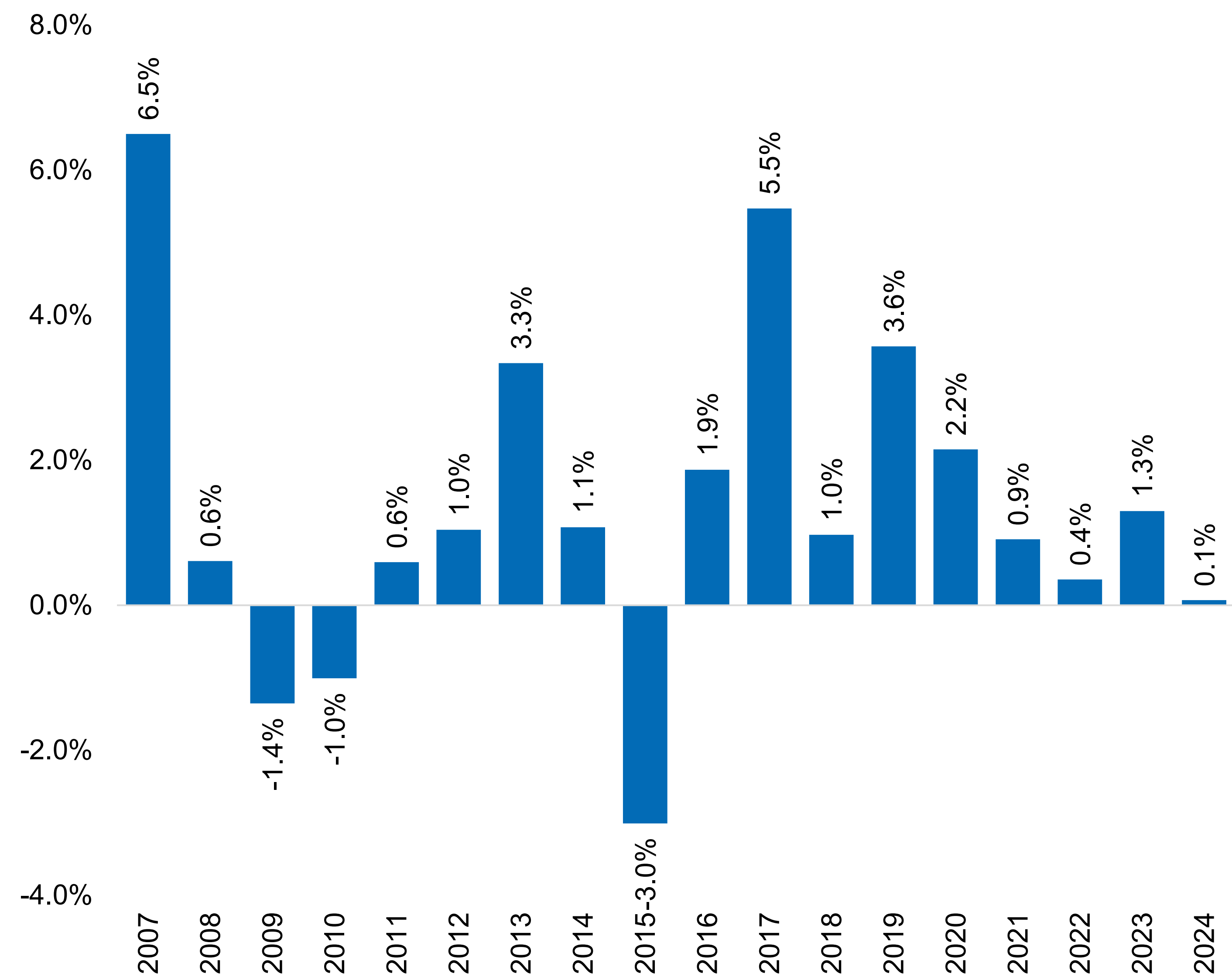
Rents Begin to Stabilize as Tenant Demand Catches Up With Supply

Asking rents ended 2024 at $42.90, increasing 10 bps from the year prior. Class B rents have driven this slight increase as it is the only class to experience positive rent growth across the market, rising 1.9% from 2023.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

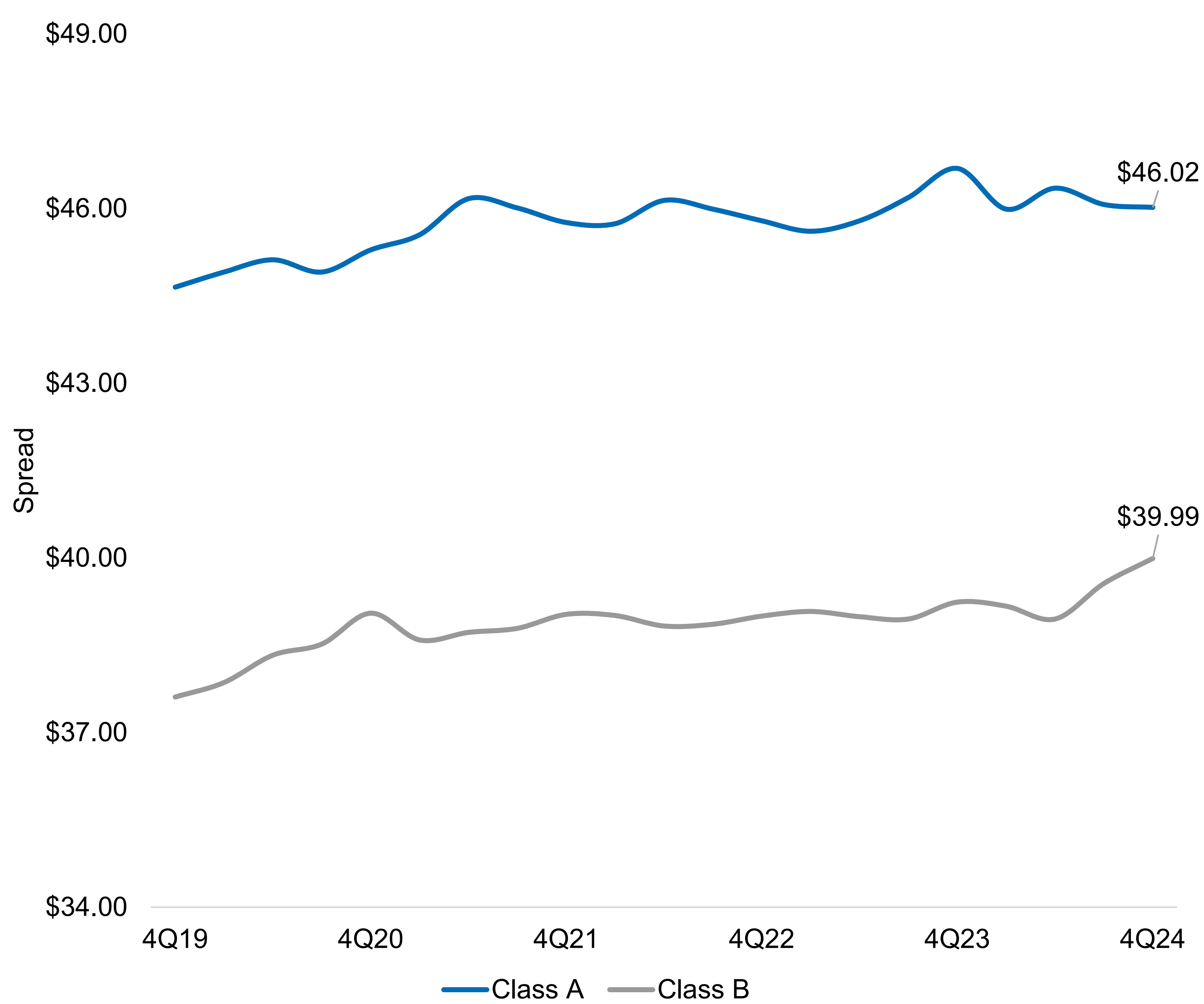


Source: Newmark Research

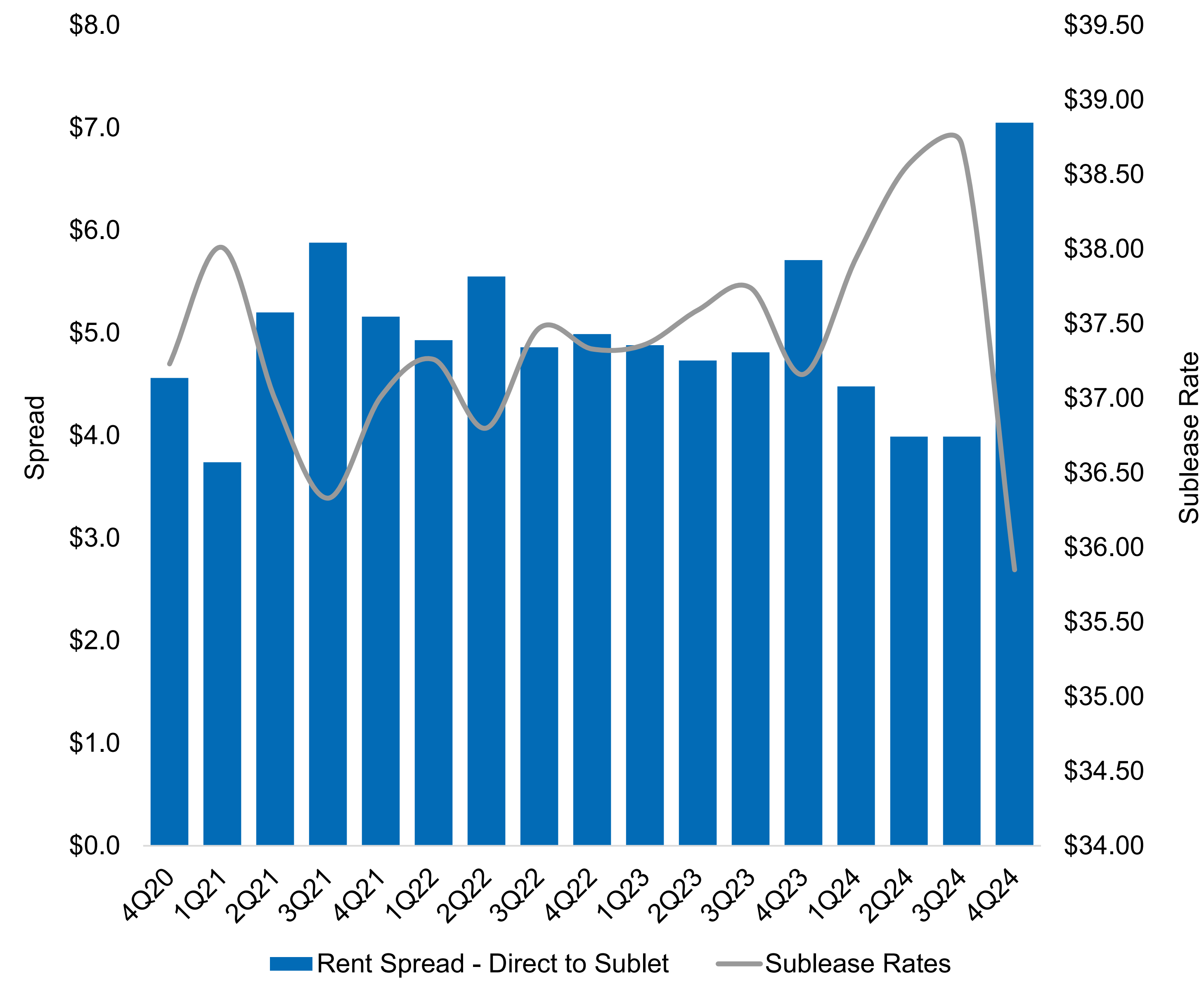
Asking Rent Growth Most Attributable to Class B

Class A asking rents decreased 1.4% throughout 2024, ending the year at $46.02 PSF. It's worth noting that class A taking rents continue to increase. This discrepancy between asking and taking rents is likely due to top stack space throughout the class being very limited. Most large contiguous availabilities now remain in lower-level floors across the metro. Class B asking rents increased 1.9% from 2023. This alongside a decreasing vacancy highlights the increase in tenant demand in the market.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Strong Leasing Activity Spread Throughout the Market

Alongside positive net absorption, leasing activity continues, with 4Q24 ending the year on a high note. Major fourth-quarter transactions were spread throughout the District and Virginia, with the five largest deals being a mix of new leases and renewals.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
SAIC	4801 Stonecroft Boulevard	Rt. 28 North	Lease Renewal	241,000
Holland & Knight	800 17th Street, NW	CBD	Lease Renewal	154,272
Zeta Associates	10302 Eaton Place	Fairfax Center	Lease Renewal	131,800
McDermott	700 11th Street, NW	East End	Direct Lease	125,000
Freshfields	1100 15th Street, NW	CBD	Direct Lease	123,000

Source: Newmark Research

4Q24

Market Statistics

Washington Metro Office 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 Metro	**365,629,968**	**21.0%**	**24.9%**	**1,119,059**	**-2,352,457**	**0**	**1,188,432**	**949,041**	**$42.90**
Class A	225,304,551	20.8%	25.7%	723,146	-1,680,101	0	1,188,432	949,041	$46.02
Class B	108,164,861	22.4%	25.3%	503,089	-63,899	0	0	0	$39.99
Class C	32,160,556	17.3%	17.4%	-107,176	-608,457	0	0	0	$30.24
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
Northern Virginia	**161,775,211**	**22.7%**	**25.4%**	**585,215**	**-2,146,108**	**0**	**852,143**	**312,424**	**$35.95**
Class A	102,182,958	23.4%	27.6%	409,561	-1,586,502	0	852,143	312,424	$38.58
Class B	40,945,542	22.7%	22.9%	178,974	-272,133	0	0	0	$32.13
Class C	18,646,711	19.0%	18.9%	-3,320	-287,473	0	0	0	$29.81
Suburban Maryland	**73,759,063**	**20.3%**	**22.7%**	**46,004**	**-842,945**	**0**	**0**	**237,000**	**$31.80**
Class A	41,994,376	22.0%	25.0%	1,483	-626,881	0	0	237,000	$34.00
Class B	22,356,279	19.8%	21.6%	10,825	-132,079	0	0	0	$29.08
Class C	9,408,408	14.0%	14.9%	33,696	-83,985	0	0	0	$25.87

Source: Newmark Research, CoStar

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