

MARKETBEAT

Washington, D.C.

Office Q1 2019



Washington, D.C. OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
D.C. Metro Employment	3.30M	3.32M	▲
D.C. Metro Unemployment	3.6%	3.3%	■
U.S. Unemployment	4.1%	3.8%	▼

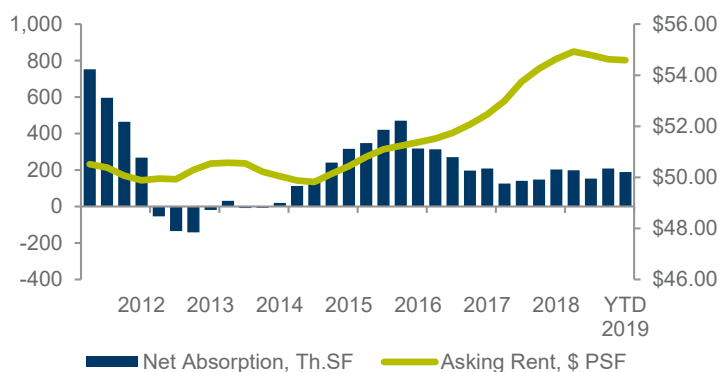
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	12.4%	13.3%	▲
YTD Net Absorption (sf)	265k	480k	■
Under Construction (sf)	5.6M	3.9M	▼
Average Asking Rent*	\$54.75	\$55.30	▲

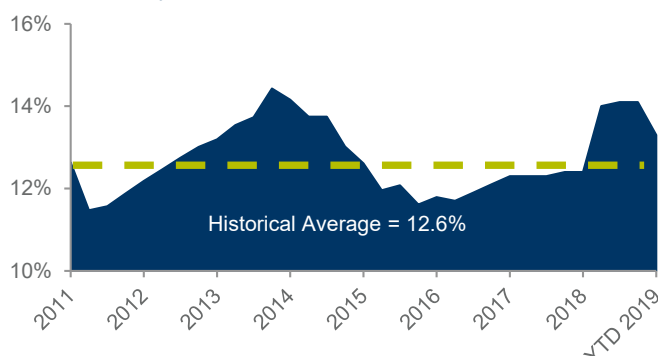
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Job growth across the Washington D.C. metropolitan region got off to a decent start in 2019, with 8,100 net new jobs added in January and February. Industry sectors that led in job creation were Leisure and Hospitality with 6,900 jobs and Professional and Business Services with 3,100 jobs. The unemployment rate continues to be incredibly tight and has hovered at 3.3% since October 2017 – the lowest rate since April 2008.

Market Overview

Despite the mid-term forecasts for overall vacancy in the Washington, DC office market which predict soaring vacancy rates, the overall vacancy rate in the District of Columbia—while up about 90 basis points (bps) on a year-over-year basis (YOY)—decreased by about the same margin from the fourth quarter of 2018 to the first quarter of 2019. Net absorption for the first quarter of the year registered just north of 480,000 square feet (sf)—more than double the 10-year quarterly average of about 231,000 sf. Absorption was bolstered by the International Finance Corporation's new headquarters at 2100 K Street NW delivering 144,000 sf fully occupied, as well as the organization relocating from an owner-occupied building. Furthermore, 500 L'Enfant Plaza SW—a 215,000-sf building anchored by the Urban Institute—delivered approximately 75% occupied. Keeping with recent trends, a healthy amount of co-working space growth also propped up absorption. Along with their move into 1701 Rhode Island Avenue NW, WeWork also opened up their 44,000 sf space on the 10th floor of Metropolitan Square. Co-working firm Spaces also absorbed about 52,000 sf in the recently renovated and delivered 1441 L Street NW. Aided by these move-ins, the District of Columbia's first-quarter 2019 overall vacancy rate was 13.3%, down from 14.1% at year-end 2018. Notably, the East End submarket breached the 15% vacancy threshold in the first quarter of the year due to moves such as the American Petroleum Institute vacating a large block in its relocation to Capitol Hill. The "amenities race" continued as new deliveries in renovated projects are at historic levels. 1441 L Street NW, 999 E Street NW and 909 E Street NW all concluded their renovations during the first quarter of 2019 with more than 300,000 sf still set to be completed by the end of 2019. Tenants continue to seek the newest and nicest product and landlords will need to respond to stay competitive.

New leasing activity was particularly strong in the first quarter of 2019, with 1,660,046 sf of new leases signed in the District of Columbia—well over the 10-year quarterly average of approximately 1,346,000 sf. This new leasing total was driven primarily by Chemonics International signing on for 290,000 sf at the proposed 1275 New Jersey Avenue SE. WeWork also signed two key leases for over 100,000 sf during the first quarter, with the largest—108,000 sf—taking the remainder of the vacant space at 1100 15th Street NW, or Midtown Center East. The rapidly growing firm also signed for 102,000 sf at 1701 Rhode Island Avenue NW earlier in the quarter. WeWork's activity during the first quarter of the year—along with Convene's 74,454 sf new lease at 575 7th Street NW—lends even more evidence that the co-working sector remains the largest contributor to net new growth in the market. However, growth in the co-working sector continues to be offset by "rightsizing" trends in the legal and government sectors such as law firm Alston & Bird shedding over 30% of its space at 950 F Street NW with its renewal this quarter.

The largest renewal of the first quarter of 2019 was the Equal Employment Opportunity Commission's recommitment to 161,000 sf at 131 M Street NW. The largest expansion was Georgetown University renewing its leased space at 2115 Wisconsin Avenue NW and expanding by about the same size, or roughly 82,000 sf. Georgetown's expansion was one of the largest seen in the District of Columbia in the past five years, trailing only WeWork's expansion at Metropolitan Square.

Overall rental rates across the District of Columbia registered \$55.30 per square foot (psf) on a full-service (FS) basis, up from \$54.34 psf at the end of 2018 and \$54.75 psf on a YOY basis. This increase is due primarily to large blocks of quality, core Class B space coming online at elevated rates after major move-outs, including part of law firm Akin Gump's space at 1333 New Hampshire Avenue NW.

Outlook

Although overall vacancy rates in the District of Columbia declined from the fourth quarter of 2018 to the first quarter of 2019, with nearly 4 million square feet (msf) set to deliver in 2019 alone—and about one-third of that space yet to be leased—vacancy rates should begin rising again as early as the second quarter of this year. The office landscape in Washington, DC is clearly favoring tenants over landlords due to the increase in supply, a trend that is expected to continue for at least another year and a half as new construction comes online, organic demand remains stagnant, and landlords look to stay competitive.

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SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Capitol Hill/NoMa	14,262,951	30,022	1,686,723	12.0%	151,907	151,907	56,770	1,550,723	\$55.15	\$57.92
East End	38,147,493	388,163	5,440,528	15.3%	66,170	66,170	453,048	1,127,658	\$57.22	\$63.33
CBD	34,108,947	427,858	3,800,450	12.4%	193,312	193,312	584,320	1,076,770	\$56.93	\$66.19
West End/Georgetown	4,730,453	77,820	530,594	12.9%	-133,136	-133,136	147,834	-	\$49.59	\$56.10
Uptown	3,188,523	73,841	337,918	12.9%	28,132	28,132	111,071	-	\$41.53	\$47.38
Southwest	11,644,799	21,976	1,440,555	12.6%	187,551	187,551	9,844	-	\$48.99	\$52.59
Capitol Riverfront	3,817,062	15,601	327,622	9.0%	-13,773	-13,773	297,159	175,000	\$50.38	\$50.38
WASHINGTON, D.C. TOTALS	109,900,228	1,035,281	13,564,390	13.3%	480,163	480,163	1,660,046	3,930,151	\$55.30	\$61.59

*Rental rates reflect gross asking \$psf/year **Does not include Renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	61,330,662	440,436	7,245,345	12.5%	1,301,911	1,301,911	1,156,967	3,930,151	\$63.11	\$61.59
Class B	29,012,534	411,852	3,637,417	14.0%	-531,719	-531,719	205,643	-	\$54.87	\$53.06
Class C	19,557,032	182,993	2,681,628	14.6%	-290,029	-290,029	297,436	-	\$46.78	\$45.87

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
1275 New Jersey Avenue, SE	290,000	Chemonics International	Prelease	Capitol Riverfront
1100 15 th Street, NW (East Tower)	108,000	WeWork	New Lease	CBD
1701 Rhode Island Avenue, NW	101,849	WeWork	New Lease	CBD
2115 Wisconsin Avenue, NW	82,400	Georgetown University	Expansion	Uptown
600 New Hampshire Avenue, NW	51,252	EIG Global Energy	New Lease	West End/Georgetown

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
One Independence Square (250 E Street, SW)	334,000	Piedmont Office Realty Trust / Saban Capital	\$170,000,000 / \$509	Southwest
Capitol Place III (50 F Street, NW)	211,904	Unizo Holdings / Penzance	\$85,000,000 / \$401	Capitol Hill/NoMa
Washington Park (2175 K Street, NW)	136,389	Deka Immobilien GmbH / Delegation of the EU	\$102,990,276 / \$755	CBD

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