MARKETBEAT

Washington, D.C.

Office Q4 2019

	YoY Chg	12-Mo. Forecast
14.8% Vacancy Rate	▲	▲
-57K Net Absorption, SF	▼	▲
$55.59 Asking Rent, PSF	—	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
3.3M D.C. Metro Employment	▲	▲
3.0% D.C. Metro Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

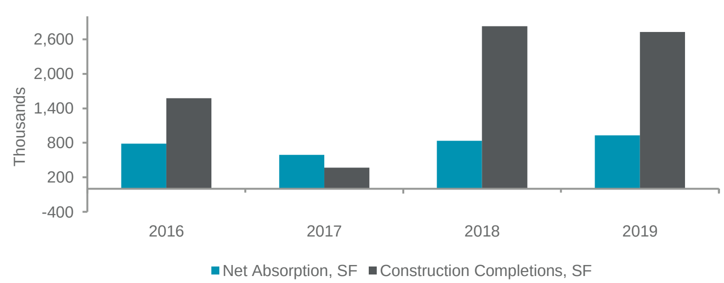
Federal Government & Associated Entities Continue Downsizing and Consolidation

The trend of federal government and associated entities relocating from leased space to owned space continued in the fourth quarter of 2019 which was highlighted by the International Monetary Fund (IMF) vacating its spaces at 1919 Pennsylvania Avenue, NW and 1875 Eye Street, NW in favor of owned space at 700 19th Street, NW. These moves came on the heels of the Federal Reserve announcing its plan to consolidate leased locations at 1801 K Street, NW and the International Square complex in the CBD into four federally owned assets by 2023. The World Bank Group also exercised their purchase option on 1776 G Street, NW at the end of the fourth quarter, officially classifying their headquarters as owned space. We expect this trend to continue, at least through the midterm, as the current administration pushes federal agencies to reduce footprint and relocate leased office space to owned as well as many other large footprint occupiers tending to favor downsizing and consolidation strategies to anchor real estate costs. Considering the federal government leases about 16% of the Washington, D.C. office market, this may not bode well for landlords in an excessively vacant Washington, D.C. market finishing off a significant development wave mid next-year. Additionally, we expect tenant concessions to stay elevated and, although average rental rates have risen due to upward pressure from the sheer amount of quality space coming online, effective rents to remain relatively flat as owners compete for tenants in a competitive market.

Leasing: Led by Renewals

Demand fundamentals have largely been buoyed by the rapid expansion of the coworking sector over the last couple of years as the traditional drivers, the federal government and legal sector, continue to consolidate and downsize. WeWork officially opened two locations in the fourth quarter at Midtown Center in the CBD and 660 North Capitol Street, NW in NoMa, contributing about 130,000 SF in positive absorption for the quarter. However, the IMF relocations, as well as a portion of the World Bank Group moving into the International Finance Corporation's new headquarters at 2100 K Street, NW, out of 1825 Eye Street, NW, contributed a healthy dose of over 200,000 SF of negative absorption at the same time. Thus, the market closed the fourth quarter with -56,755 SF of negative net absorption. Demand was essentially flat in the fourth quarter. While coworking firms Industrious and Knotel both signed new leases at 650 Massachusetts Avenue, NW and 909 E Street, NW respectively, moving forward, Washington, D.C. may see a considerable slowdown in coworking activity and will need to look elsewhere for significant net growth.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

On the leasing front, PwC signed the largest new lease of the quarter for just under 200,000 SF for the top floors at 655 New York Avenue, NW - just about bringing the newly delivered building to fully leased. However, the fourth quarter was marked primarily with renewals as law firms Perkins Coie and Seyfarth Shaw, as well as CNN, Danaher, and the National Democratic Institute, among many others, elected to renew at their current locations and, in some cases, expand as Perkins Coie and CNN did. In response to excess vacancy throughout the market, landlords are eager to lock up their anchor tenants with sizeable concession packages to mitigate the possibility of having to release large blocks in current market conditions. Intense building to building competition for an increasingly limited number of users should continue into 2020 especially as many larger tenants elect to renew if not moving to new construction.

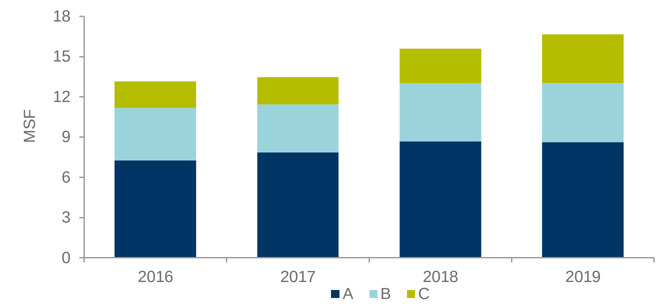
Vacancy Rising

Vacancy in the Washington, D.C. market reached its highest point of the decade, closing the fourth quarter at 14.8%, up 60 basis-points (bps) from third quarter vacancy of 14.2% and up 70 bps from year-over-year (YOY) totals. Coinciding with the IMF and World Bank relocations, JBG Smith's 1900 N Street, NW delivered in the CBD. The new-build is well leased at about 75% however only law firm Goodwin Procter has moved into their new space by the close of the quarter. The second phase of Property Group Partners' Capitol Crossing development, 250 Massachusetts Avenue, NW, also delivered in the fourth quarter and added about 500,000 SF of vacant space to the market. Vacancy is expected to peak around 16% by the end of the development cycle in mid-2020 when the remaining one million SF or so of speculative construction comes online in both the CBD and East End. Moving forward, although the market could potentially see another significant uptick in the 2024 timeframe if a couple potential redevelopments break ground soon, new developments and repositioning's will likely scale back and require higher rents and larger preleasing commitments in response to elevated construction and labor costs. If all else holds equal, this should give the market a few years to absorb the new space delivered in the current construction phase. Vacancy in the East End breached the 18% threshold, closing the fourth quarter at an 18.1% mark. Law firm Goodwin Procter vacated the submarket in their move to newly-constructed 1900 N Street, NW this quarter. Furthermore, with Beveridge & Diamond, CBRE, and Paul Hastings, among others, set to vacate the East End in favor of new construction in the CBD, expect vacancy across the East End to continue to creep up next year.

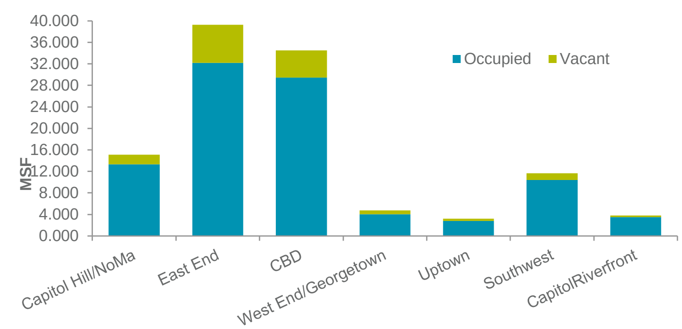
Outlook

The apparent slowdown hasn't been felt equally across the board. Washington, D.C. remains a "flight to quality" market, boding well for Class A landlords. Class A net absorption totaled just under 500,000 SF in the fourth quarter as tenants continue to favor the highest quality offerings in the city. In terms of Class B owners, with new construction options largely off the table and a clear lack of eligible relocation options for government occupiers, look for some federal agencies to possibly backfill previously occupied space that had been vacated for new construction or simply renew in their existing locations, potentially boding well for some Class B landlords. Lastly, most development has taken place in the core submarkets of the East End and CBD causing upward pressure on vacancy rates. However, the emerging submarkets of Southwest, Capitol Riverfront, and parts of Capitol Hill and NoMa boast the three lowest vacancy rates in Washington, D.C. as the submarkets become legitimate relocation options for high profile and large footprint users alike. These markets should remain relatively tight at least through the midterm as the only speculative builds slated to come online in these submarkets through 2022 are 350 Morse Street, NE in NoMa, already rumored to be in talks with users, and Phase II of the Wharf development - already half preleased by law firm Williams & Connolly.

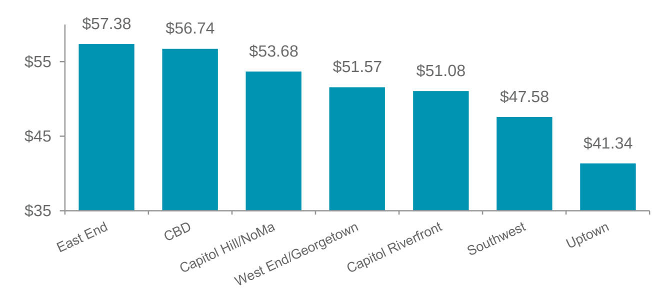
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



SUBMARKET ASKING RENT



MARKETBEAT

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Office Q4 2019

CUSHMAN & WAKEFIELD

MARKET STATISTICS

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 AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Capitol Hill/NoMa	15,135,081	27,780	1,765,394	11.8%	285,781	1,080,378	482,222	757,823	$53.68	$58.12
East End	39,251,977	572,292	6,521,177	18.1%	-142,904	-94,124	2,161,971	137,797	$57.38	$62.81
CBD	34,516,741	539,274	4,506,136	14.6%	-266,945	-215,996	1,594,869	1,301,257	$56.74	$66.50
West End/Georgetown	4,779,133	104,239	627,188	15.3%	18,065	-256,149	391,368	0	$51.57	$60.62
Uptown	3,188,523	65,300	345,608	12.9%	-19,594	28983	233,428	0	$41.34	$44.33
Southwest	11,644,799	15,440	1,251,093	10.9%	20,545	383,549	254,503	549,703	$47.58	$49.56
Capitol Riverfront	3,817,062	32,180	294,808	8.6%	48,297	2,462	406,635	490,000	$51.08	$51.08
Washington, D.C. TOTALS	**112,333,316**	**1,356,505**	**15,311,404**	**14.8%**	**-56,755**	**929,103**	**5,524,996**	**3,236,580**	**$55.59**	**$62.11**

Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
655 New York Avenue NW	East End	PwC	198,316	New Lease
700 13th Street NW	East End	Perkins Cole	137,662	Renewal/Expansion
820 1st Street NE	Capitol Hill/NoMa	CNN	106,763	Renewal*
2200 Pennsylvania Avenue NW	CBD	Danaher	79,166	Renewal*
975 F Street NW	East End	Seyfarth Shaw	62,724	Renewal*

Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $PSF
1776 G Street NW	CBD	WashREIT / World Bank Group	266,000	$129.5M / $487
901 15th Street NW	East End	Abu Dhabi IA / Northwestern Mutual Insurance	255,968	$209.1M / $817
99 M Street SE	Capitol Riverfront	Skanska / Polinger Company	234,782	$163M / $694

KEY CONSTRUCTION COMPLETIONS Q4 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
250 Massachusetts Avenue NW	Capitol Hill/NoMa	N/A	529,800	Property Group Partners
1900 N Street NW	CBD	Goodwin Procter / CBRE / Beveridge & Diamond	257,513	JBG Smith

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Q4 2019

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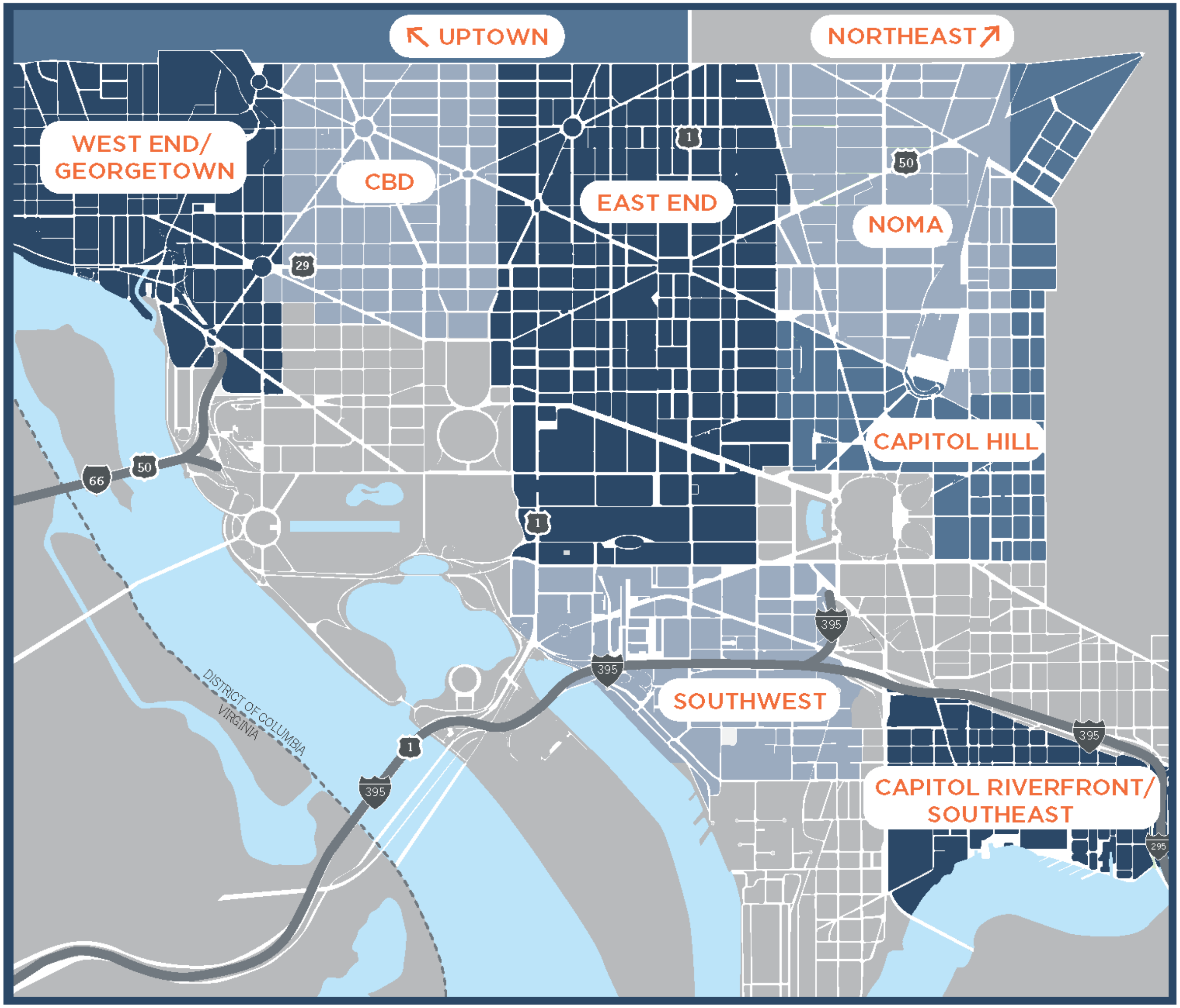
OFFICE SUBMARKETS



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