

	YoY Chg	12-Mo. Forecast
<b>17.8%</b> Vacancy Rate	▲	▲
<b>-657K</b> Net Absorption, SF	▲	▼
<b>\$56.59</b> Asking Rent, PSF	▬	▬

(Overall, All Property Classes)

## Gross Leasing

It is evident the trend of long-term decisions being put on hold continued throughout the first quarter of 2021 in Washington, DC, especially among large-footprint tenants. DC averaged about 2.2 million square feet (msf) and 1.5 msf per quarter in 2019 and 2020, respectively, in total gross leasing of 10,000 square feet (sf) and above leases. In the first quarter of 2021, DC registered just under 1.1 msf of the same data set- on par with the fourth quarter of 2020. Additionally, in a market that historically trends just about 50-50 in terms of new leasing and renewals, the first quarter of 2021 became the fifth quarter in a row new leasing accounted for 35% or lower of total gross leasing as tenants continue to kick the can down the road. As timing permits, most companies are expected to delay real estate decisions until they have more clarity on post-pandemic operations, workforce preferences, and local safety guidelines. Even more so than normal, the government, both Federal and local, continue to bolster leasing activity as the public sector accounted for 60% of gross leasing over 10,000 sf in the first quarter.

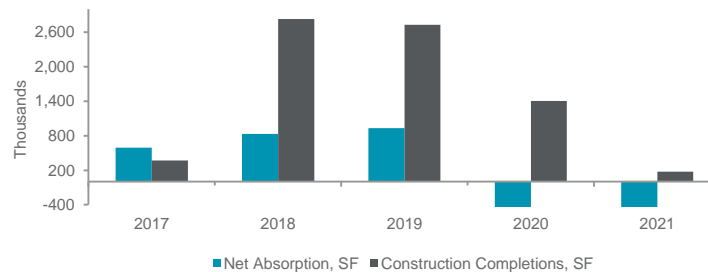
On a net basis, over 650,000 sf was given back to the market in the first quarter, just over 50% of the total amount of space given back to the market in all of 2020. Tenant rightsizing, restructures with downsizes in return for added term length, terminations, and sublease vacancy are all significant factors and will continue to be moving forward. The federal government, legal sector, and coworking firms are the primary contributors to this trend. In the first quarter, the United States Citizenship & Immigration Services vacated over 500,000 sf across four properties in its consolidation to a new headquarters in Camp Springs, Maryland. The Bureau of Land Management also vacated about 100,000 sf at 20 M Street SE in its move to Colorado - coming on the heels of the Department of Agriculture vacating 125,000 sf in its relocation to Missouri last year. Within the legal sector, K&L Gates gave back about 60,000 sf in the first quarter and coworking firms, such as Spaces, Mixer, Knotel, and MakeOffices continue to shut down various operations. Most notably, WeWork has, or plans to, return just over 250,000 sf across six locations in DC. In a continuing theme, businesses will continue to rightsize, even more so in light of the pandemic as work from home preferences and flexible operations are cemented. This, as well as large footprint users, such as the government and coworking sector terminating leases or leaving the market altogether, will continue the negative absorption trend.

## ECONOMIC INDICATORS Q1 2021

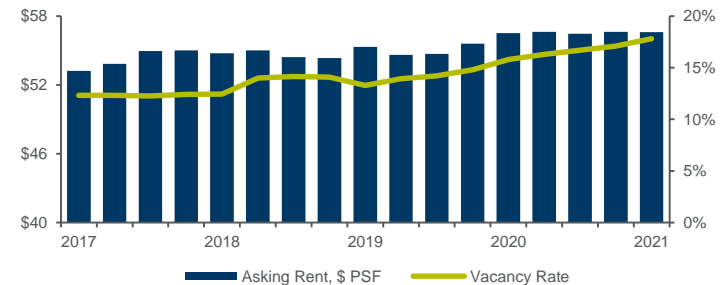
	YoY Chg	12-Mo. Forecast
<b>3.1 M</b> D.C. Metro Employment	▼	▲
<b>6.0%</b> D.C. Metro Unemployment Rate	▲	▼
<b>6.0%</b> U.S. Unemployment Rate	▲	▼

Source: BLS

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# Washington, D.C.

Office Q1 2021



In good news for the market, three new to market firms signed leases in the District. MotoRefi and Fletcher, Heald & Hildreth, both out of Arlington VA, committed to 17,850 sf and 14,000 sf respectively in the CBD. Generali, out of Bethesda MD, also committed to about 15,000 sf in the West End. Two other large users out of Bethesda, 100,000 sf and 40,000 sf respectively, are close to finalizing moves downtown as well. There has not been any compelling evidence of the reverse trend of tenants leaving downtown to the suburbs due to the pandemic- additional welcomed news for downtown.

## Sublet Market

New additions to the sublet market were relatively light in the first quarter with only four availabilities over 20,000 sf, with at least a five-year term, brought to market. Still, very little subleasing activity has been executed relative to the total amount brought to market and activity has been light. As more sublease options come to market, the increased competition, coupled with lack of demand, will minimize opportunities for potential recovery and reduction in sublease inventory.

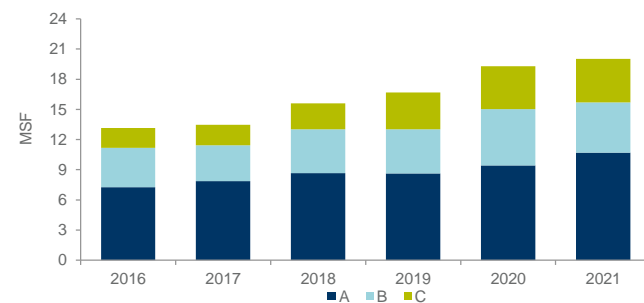
## Development Pipeline

Flight to quality continues to be good news in the District, as a few large renovated blocks, i.e. 1201 New York Avenue, 1101 K Street, 1333 New Hampshire Avenue, and 1400 L Street, have signed leases this quarter or are very close to getting deals done. However, newly repositioned and unleased product at 1307 New York, 1771 N Street, and 1401 Massachusetts Avenue are still scheduled to come online by the end of 2021. Newly constructed space at 699 14<sup>th</sup> Street and Signal House will also hit the market this year and have yet to capture any leasing. Washington DC has and continues to face influxes of newly renovated space; however, the market is nearing the end of the current development cycle with little in the pipeline post-2021. The increasing supply, coupled with a lack of any significant sources of net new demand, has led to new highs in vacancy, magnified by the fact the largest sectors in the tenant market, the federal government, law firms, associations, and non-profits, remain in contraction and consolidation mode. Vacancy currently sits at 17.8% and is expected to increase through 2021 as downsizing continues and the remaining new developments come online.

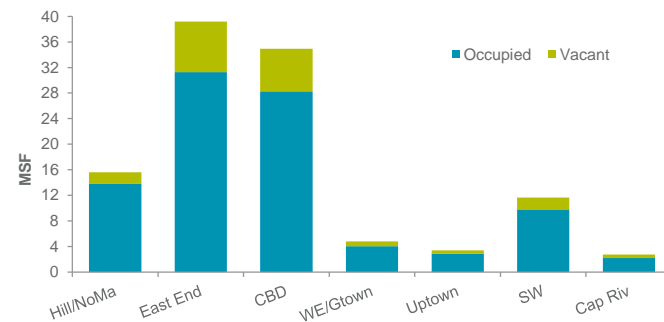
## Outlook

Upon the arrival of COVID-19 in the U.S., the economy entered a recession in March 2020, recording the worst decline in post-war history in Q2 2020. Mounting evidence indicates that the recovery began in May or June with Q3 2020 data reflecting that fact. But, until there is a public health resolution to the pandemic, the recovery is likely to remain uncertain and gradual. Only then can households and businesses become more confident. Access the most recent research on CRE and the state of the economy [here](#).

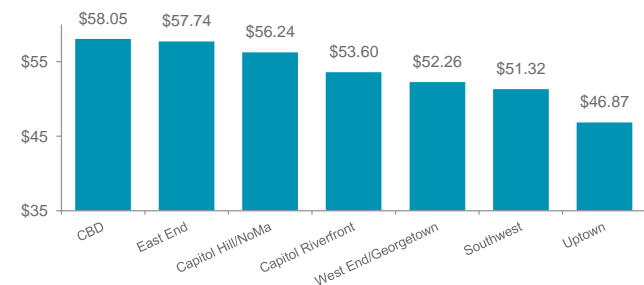
## VACANT SPACE BY CLASS



## SUBMARKET COMPARISON



## SUBMARKET ASKING RENT



# Washington, D.C.

## Office Q1 2021

### MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Capitol Hill/NoMa	15,583,714	36,838	1,682,219	11.0%	-90,472	-90,472	35,305	250,931	\$56.24	\$61.91
East End	39,207,830	504,838	7,422,768	20.2%	-91,882	-91,882	246,027	143,872	\$57.74	\$63.07
CBD	34,946,182	403,484	6,294,866	19.2%	-220,322	-220,322	165,130	482,000	\$58.05	\$68.88
West End/Georgetown	4,779,133	44,428	713,377	15.9%	-51,341	-51,341	25,338	0	\$52.26	\$58.57
Uptown	3,392,475	28,186	464,531	14.5%	-43,128	-43,128	7,644	174,000	\$46.87	\$50.00
Southwest	11,644,799	10,586	1,851,400	16.0%	-56,602	-56,602	2,959	639,703	\$51.32	\$53.09
Capitol RiverFront	2,754,932	20,126	545,690	20.5%	-102,842	-102,842	48,065	315,000	\$53.60	\$53.60
<b>DOWNTOWN TOTALS</b>	<b>112,309,065</b>	<b>1,048,486</b>	<b>18,974,851</b>	<b>17.8%</b>	<b>-656,589</b>	<b>-656,589</b>	<b>530,468</b>	<b>2,005,506</b>	<b>\$56.59</b>	<b>\$62.77</b>

\*Rental rates reflect full service asking

### KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1201 New York Avenue NW	East End	Biotechnology Innovation Organization (BIO)	60,809	New Lease
1015 Half Street SE	Capitol Riverfront	DC Government – HSEMA	44,844	New Lease
1828 L Street NW	CBD	Arabella Advisors	27,039	Sublease
1301 Pennsylvania Avenue NW	East End	Advanced Medical Technology Assoc. (AdvaMed)	26,448	New Lease
2001 K Street NW	CBD	Womble Bond Dickinson	22,630	New Lease

\*Renewals not included in leasing statistics

### KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1350 Eye Street NW	East End	EDGE Funds / MetLife Real Estate (Auction Sale)	399,794	\$120,500,000 / \$301
1307 New York Avenue NW	East End	Marx Realty / Invesco (70% Interest Sale)	120,961	\$29,050,000 / \$343

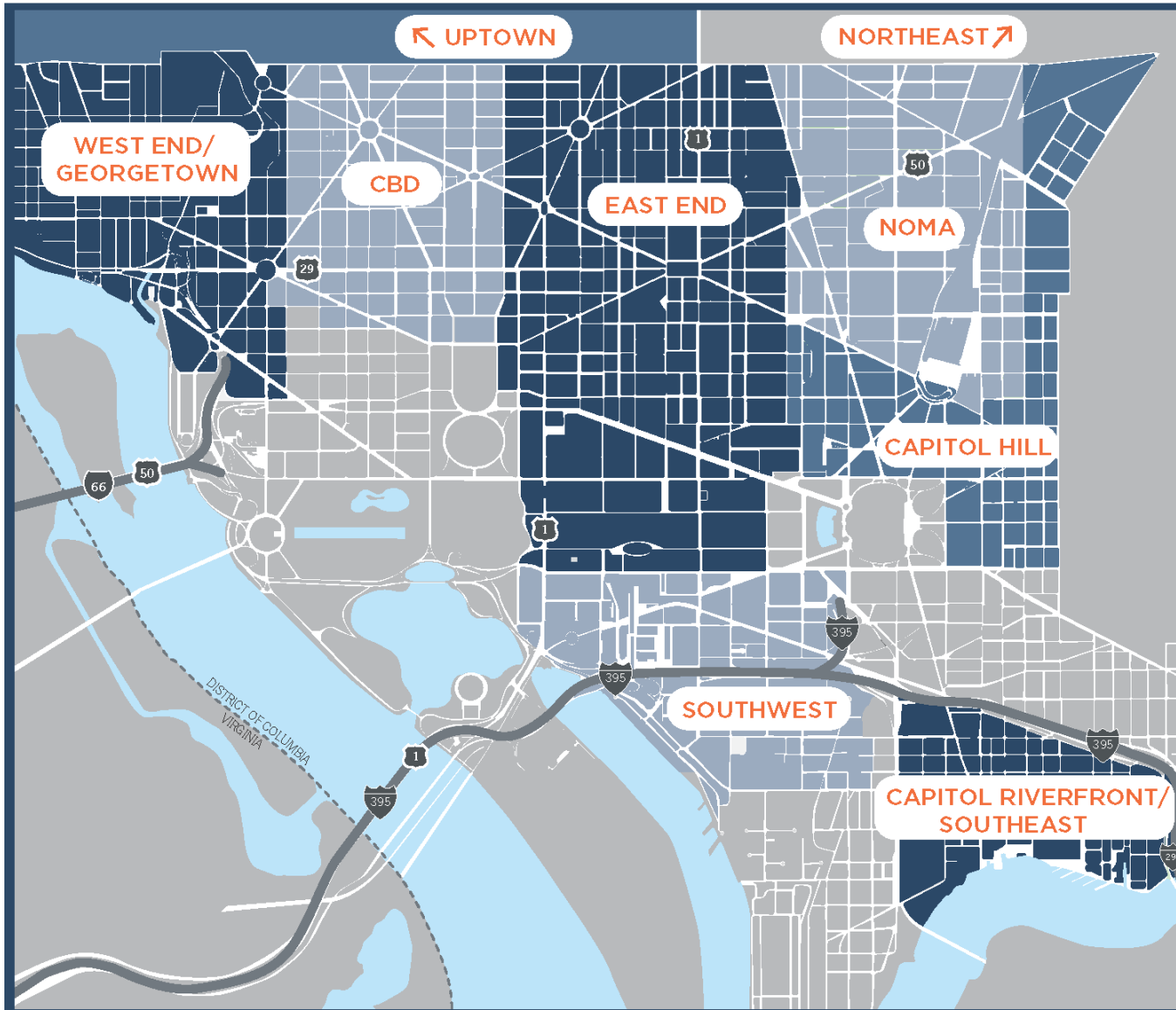
### KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
250 M Street SE	Capitol Riverfront	D.C. Department of Transportation	175,779	WC Smith

# Washington, D.C.

Office Q1 2021

OFFICE SUBMARKETS



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