

	YoY Chg	12-Mo. Forecast
18.2% Vacancy Rate	▲	▲
-353K Net Absorption, SF	▼	▼
\$56.48 Asking Rent, PSF	▬	▬

(Overall, All Property Classes)

Gross Leasing & Demand

After the District recorded historically low volumes of total leasing in the fourth quarter of 2020 and the first quarter of 2021, approximately 1.4 million square feet (msf) each, DC registered just over 2 msf of gross leasing in the second quarter of 2021 - about a 50% increase quarter over quarter and largest total since pre-pandemic first quarter 2020. This is an early but significant sign that the market may have bottomed, and recovery is taking place, at least regarding leasing. This is also a result of larger transactions that have been in negotiation for much longer than normal being finalized, such as Boston Consulting Group, American Bankers Association, PCORI, and Enovational, among others. For a multitude of reasons, including users trying to figure out how their business and office space needs may have changed, not being able to focus on real estate relative to other immediate business needs, and construction delays, larger deals have taken much longer to negotiate but are beginning to get done as users see much more clarity on post-pandemic operations, workforce preferences, and local safety guidelines into 2021. For reference, there remains about 600,000 sf of new relocation leasing, in groups with footprints over 20,000 sf, still pending for at least two to three quarters that should close any moment but have been “stalled” in negotiations.

Further, while still premature to make overarching assumptions, a second notable trend surfacing is new leasing, which at 1.1 msf totaled more than the 990,000 sf of renewals across the District in the second quarter for the first time since the third quarter of 2019. Again, this is a function of both large, relocation deals getting done following a prolonged negotiation phase and increased operational and workforce clarity. Anecdotally, trophy, commodity A, and newly renovated/constructed space seems to garner most tour and leasing activity across the District, albeit these are the market segments where many large blocks remain. On the flip side, spec suite offerings continue to capture most of the small-tenant demand as users with compressed timelines or groups who may have let their leases roll and opted to work remotely look to get back into quality, built-out space.

On a net basis, over 350,000 sf was returned to market in the second quarter, which became the seventh quarter in a row the District recorded negative absorption totals.

ECONOMIC INDICATORS Q2 2021

	YoY Chg	12-Mo. Forecast
3.2 M D.C. Metro Employment	▲	▲
5.5% D.C. Metro Unemployment Rate	▼	▼
5.9% U.S. Unemployment Rate	▼	▼

Source: BLS

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Washington, D.C.

Office Q2 2021



Along with the 657,000 sf given back in the first quarter, the District has seen over 1 msf of space come back to ownership halfway through 2021. Broad-based tenant rightsizing, federal relocations out of market, and terminations in the coworking sector are the primary contributors to this trend. In the first quarter, the United States Citizenship & Immigration Services and Bureau of Land Management relocated 500,000 sf and 100,000 sf, respectively, out of market. In the second quarter of 2021, agencies such as the FDIC and Department of Education renewed and downsized or consolidated multiple locations. Law firms and Financial & Business Services continue to rightsize for both efficiency-sake and new workplace models as they try to figure out the right mix of desk sharing. Coworking firms, such as Spaces, Knotel, and MakeOffices, continue to shut down various operations.

In other market developments, Nonprofits and Associations remain one of the most active sectors across the District. These groups are consistently trying to improve fundraising positions and branding and surveying the market in search of heavily favorable deals, in most cases in efficient, higher quality space, allowing them to upgrade their image at aggressive rates. Additionally, some users out of the suburbs are taking space downtown such as MotoRefi, out of Arlington VA, committing to 17,850 sf in the CBD and Generali, out of Bethesda MD, committing to about 13,000 sf in the West End in the first quarter. In the second quarter, and in the largest private sector deal of the quarter, Boston Consulting Group, also out of Bethesda MD, leased 97,779 sf in the East End. Another 40,000 sf group out of Bethesda is close to finalizing a move downtown as well. Lastly, the market is starting to see some of the large, full term law firm sublet space brought to market during the pandemic being pulled such as Blank Rome's, Miller & Chevalier's, and Winston & Strawn's offerings.

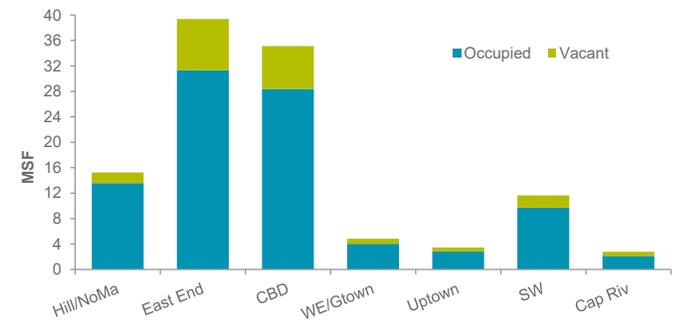
Development Pipeline, Market Segments, & Outlook

Downtown new construction space is relatively drying up outside of 699 14th Street, slated to deliver late summer, and the lower stack of 2100 Pennsylvania Avenue delivering in 2022. Many newly constructed assets are getting aggressive and trying to get one or two more lower stack deals done before ownership potentially brings the building to market. Future offerings, such as 1700 M Street and 900 New York Avenue, will need significant preleasing in order to move forward. Commodity and renovated A space, the segment with an abundance of space and most large blocks, is where the market is seeing most of the larger private sector deals with the most aggressive financials. Lastly, Class B doesn't have as many "True Class B" large-blocks but owners have started to get much more aggressive in order to fill their space. As evidenced, flight to quality continues to be the primary theme in the District and many large renovated blocks 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. Washington DC has and continues to face influxes of newly renovated space and the increasing supply, coupled with a lack of any significant sources of net new demand, has led to new highs in vacancy. Vacancy currently sits at 18.2% and is expected to increase through 2021 as downsizing continues and the remaining new developments come online.

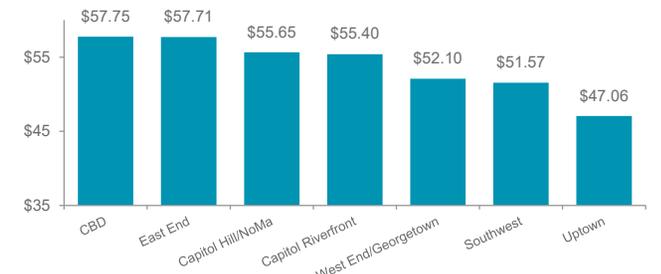
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



SUBMARKET ASKING RENT



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	15,257,569	35,838	1,637,688	11.0%	45,531	-44,941	97,158	250,931	\$55.65	\$61.38
East End	39,392,124	411,298	7,624,029	20.4%	-107,721	-199,603	611,962	143,872	\$57.71	\$63.58
CBD	35,140,220	381,536	6,351,859	19.2%	-35,045	-255,367	583,402	482,000	\$57.75	\$68.63
West End/Georgetown	4,837,555	44,428	745,451	16.3%	26,348	-24,993	30,808	0	\$52.10	\$58.32
Uptown	3,459,975	21,203	614,145	18.4%	-142,631	-185,759	24,826	174,000	\$47.06	\$50.00
Southwest	11,644,799	10,586	1,910,023	16.5%	-58,623	-115,225	189,157	639,703	\$51.57	\$53.38
Capitol Riverfront	2,784,932	20,126	626,875	23.2%	-81,185	-184,027	98,537	315,000	\$55.40	\$55.40
DOWNTOWN TOTALS	112,517,174	925,015	19,510,070	18.2%	-353,326	-1,009,915	1,635,850	2,005,506	\$56.48	\$62.92

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
655 15 th Street NW	East End	Boston Consulting Group	97,779	New Lease
1333 New Hampshire Avenue NW	CBD	Patient-Centered Outcomes Research Institute	96,062	New Lease
1400 L Street NW	East End	Enovational	95,619	New Lease
1333 New Hampshire Avenue NW	CBD	American Bankers Association	87,183	New Lease
1099 New York Avenue NW	East End	Jenner & Block	66,212	Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1015 Half Street SE	Riverfront	PGIM / Hines	396,344	\$216M / \$544
64 New York Avenue NE	NoMa	ASB Capital / Boyd Watterson	355,034	\$202M / \$568
1101 Connecticut Avenue NW	CBD	Dune Real Estate / CrossHarbor Capital	188,510	\$53M / \$282

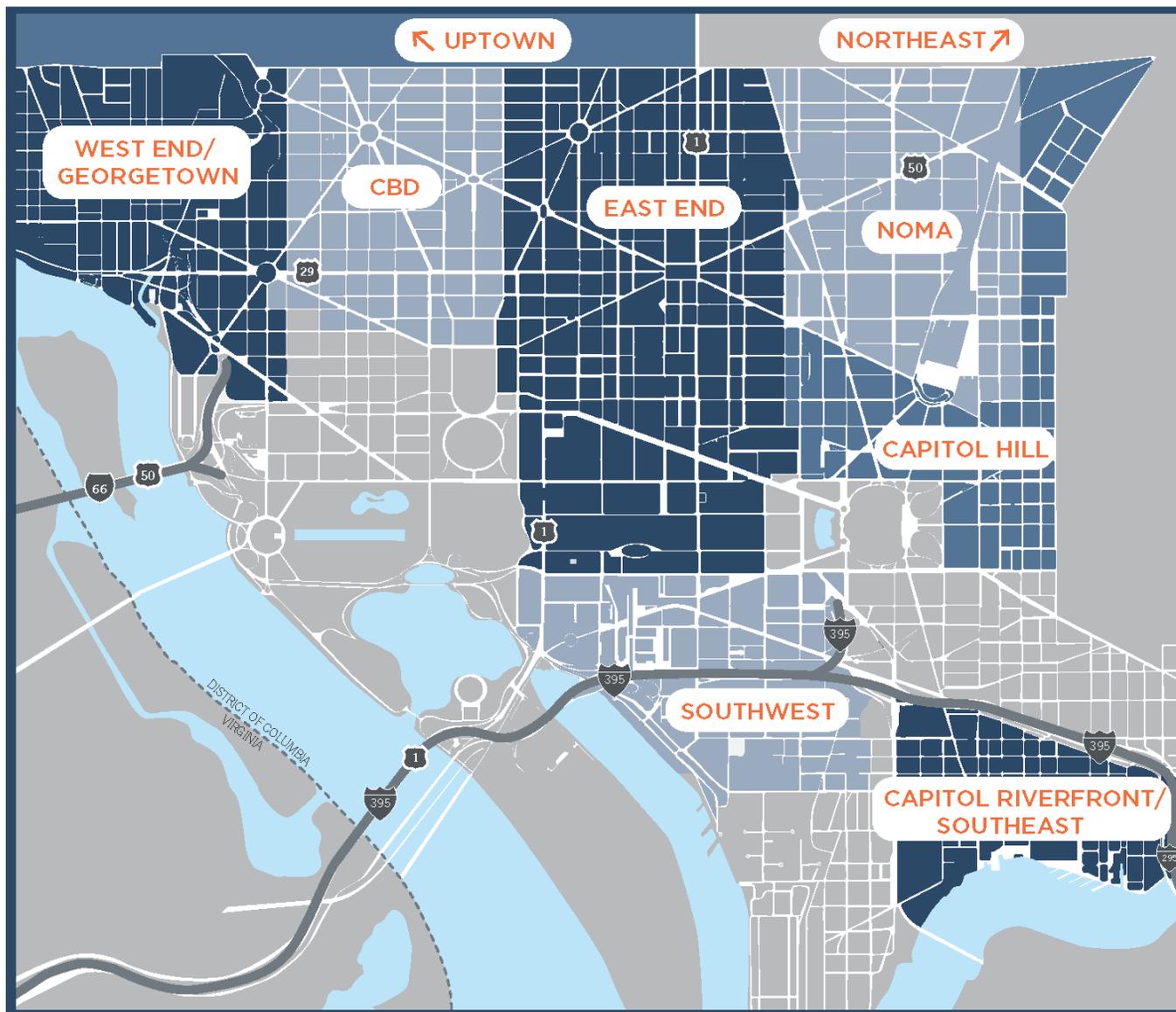
KEY CONSTRUCTION COMPLETIONS YTD 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
250 M Street SE	Capitol Riverfront	DC Department of Transportation	175,779	WC Smith
1222 22 nd Street NW (Renovation)	West End	Perkins&Will, Knoll	58,422	Bernstein

Washington, D.C.

Office Q2 2021

OFFICE SUBMARKETS



Ryan McMahon

Senior Analyst

+1 202 495-7029 /ryan.mcmahon@cushwake.com

Lauren Kraemer

Associate Director

+1 202 266 1316 /lauren.kraemer@cushwake.com

Nathan Edwards

Senior Director

+1 202 266 1189 /nathan.edwards@cushwake.com

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