MARKETBEAT

Washington, D.C.

Office Q3 2021

	YoY Chg	12-Mo. Forecast
18.4% Vacancy Rate	▲	▲
-120K Net Absorption, SF	▼	▼
$56.80 Asking Rent, PSF	▬	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
3.2 M D.C. Metro Employment	▲	▲
5.2% D.C. Metro Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

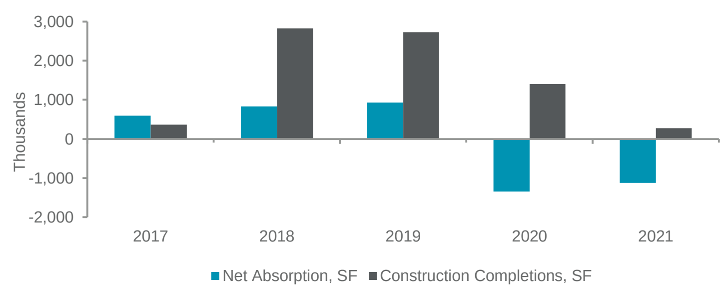
Source: BLS

Gross Leasing & Demand

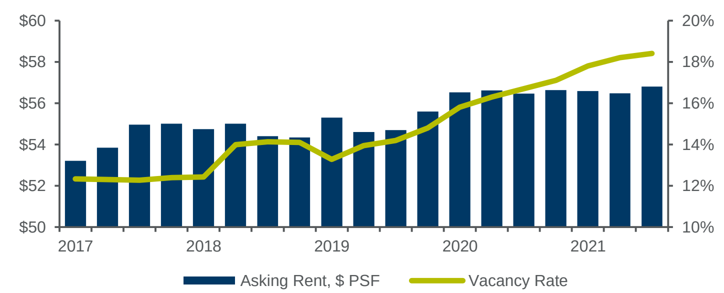
From a year-over-year perspective, in Q2 & Q3 of 2020, the District totaled about two million square feet (msf) of gross leasing per quarter, down from just over a 2.5 msf quarterly average over the last 5 years prior to 2020. Q4 2020 & Q1 2021 experienced historically low volumes of total leasing with just about 1.4 msf each as a post-pandemic "bottom" seemed to form. In Q2 2021, DC registered just under 2.1 msf of gross leasing, and while still lagging, was significant with new leasing accounting for a larger percentage of total sf than renewals for the first time since the pandemic hit. In Q3 2021, while the emergence of the Delta Variant resulted in slower tour activity just as momentum appeared to be picking back up, new leasing again accounted for the larger share of overall leasing. It is also important to note – these numbers do not reflect the recent developments of the 1.2 msf GSA - SEC prelease in NoMa, out of Station Place, and the 165,000 sf Gibson Dunn prelease at 1700 M Street - both to be officially recorded in Q4 2021 numbers. Again – this is an early but significant sign that the market may have bottomed towards the end of 2020 & beginning of 2021, and a recovery, with respect to leasing, is beginning to take place. Additionally, as has been the case the last couple of quarters, the relative lag in leasing activity is also a result of larger transactions that have been in negotiation for much longer than normal being finalized, such as the Sterne Kessler relocation this quarter. For a multitude of reasons, larger deals have taken much longer to negotiate but are beginning to wrap up as users are running against deadlines needed to procure and buildout space.

Notwithstanding, large footprint new leases executed over 30,000 sf remain relatively light in number throughout the pandemic and into 2021. For reference, across all of DC in 2020, there were only 12 new relocations or new to market private sector deals 30,000 sf or larger with 11 being executed so far in 2021. From 2016 – 2019, the market was averaging closer to 22 annually with as many as 33 in 2018. There does remain a sizeable chunk of groups with footprints over 30,000 sf still pending for at least a couple quarters that could close any moment, but have been "stalled" in negotiations, and the market could potentially see another 7-8 groups sign by the end of this year or early 2022 should those deals get finished. However, looking at just executed deals, DC is still lacking in large footprint relocations for owners to chase. In light of this, spec suite offerings continue to increase in popularity and capture most of the small-tenant demand as users with compressed timelines look to get back into quality, built-out space.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Washington, D.C.

Office Q3 2021

Spec Suite listings in the downtown core submarkets have grown by over 60% since the end of 2019 as the market has become more competitive, with many owners looking to set their spaces apart by way of amenities, size, tenant experience, and price in order to break up large blocks and tackle more readily available small user demand.

Market Segments

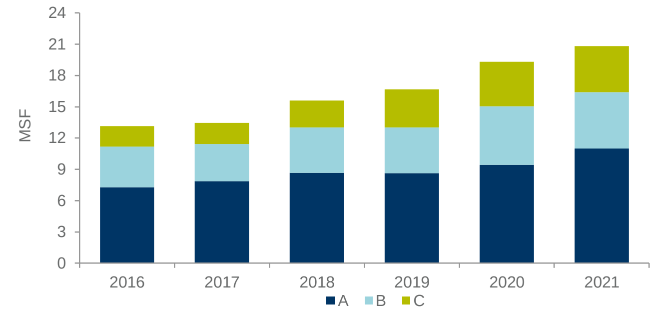
On a net basis, just over 120,000 sf was returned to market in the third quarter, which became the eighth quarter in a row the District recorded negative absorption totals. Year to date, about 1.1 msf has been returned to the market. In a continuing trend, broad-based tenant rightsizing, specifically in the legal and public sectors were the primary contributors to negative net absorption in Q3. For instance, GSA – HUD & FAA vacated almost 100,000 sf out of 470-490 L'Enfant Plaza and Sidley gave a floor back at 1501 K Street. In terms of tenant activity, apart from the federal and DC governments - law firms, associations & nonprofits, and tech/data/software firms have rounded out the top three most active sectors in deals 8,000 sf and over – 18%, 15%, and 8% respectively since March of 2020 when accounting for both new deals and renewals. When looking at new deals only – the same three sectors round out the top but in the order of nonprofits & associations, law firms, and tech/data/software.

In terms of tenant concessions, newly renovated Class B+ and A buildings, the segment with an abundance of large contiguous blocks, is where the market is seeing most of the bigger private sector deals with the most aggressive financials. Vacancy in DC's Trophy product, priced in the upper $40s NNN rents and above, historically trends about 5 or more points lower than general market and lacks many premier top stack availabilities. On the flip side, there aren't many "True Class B" large blocks either in the $55 FS and below range not renovated or with plans to be renovated. Most large block vacancy sits within the upper $50s FS into low $70s FS range and it is in this segment of the market concessions have hit historical market-highs.

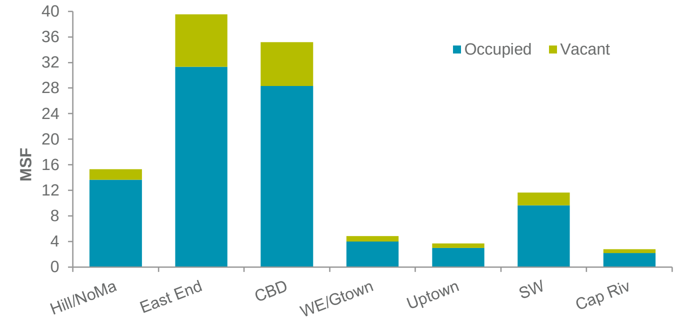
Development Pipeline & Outlook

The 'final wave' of the current development and renovation cycle started to come online in the third quarter as Foulger Pratt's 38,000 sf 301 N Street delivered in NoMa almost entirely preleased by Hickok Cole Architects out of Georgetown. Community Three's 65,000 sf 1923 Vermont Avenue also delivered, about half preleased by Torti Gallas + Partners and Malala Fund. Stream Realty's 1771 N Street and Marx Realty's 1307 New York Avenue also delivered their highly anticipated renovations in the third quarter. We still expect vacancy to continue increasing at least through the midterm. Outside of the 1.2 msf GSA – SEC relocation out of Station Place, anticipated in 2025, 2100 Pennsylvania Avenue and the Wharf's second phase, consisting of 670 & 680 Maine Avenue and 610 Water Street, along with a couple other developments, are still slated to come online in 2022 against 1.5 msf of law firm expirations. In 2023, 20 Massachusetts Avenue's top stack Trophy renovation is scheduled to deliver followed by Skanska's 1700 M Street against 2 msf of legal expirations in 2024. We expect overall vacancy to hover around 21% in that timeframe before any sort of broad vacancy recovery takes place across the market.

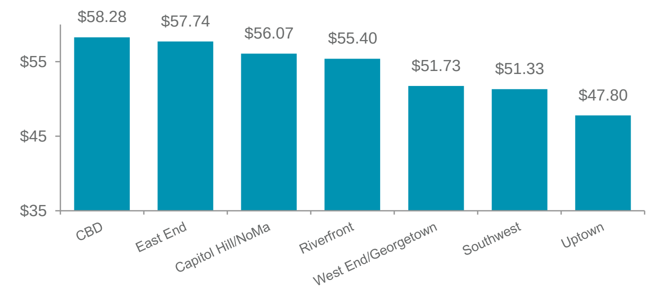
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



SUBMARKET ASKING RENT



Washington, D.C.

Office Q3 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	15,293,999	35,642	1,607,287	10.7%	67,027	22,086	159,300	215,308	$56.07	$61.54
East End	39,513,085	345,250	7,866,652	20.8%	-57,552	-255,217	1,121,796	143,872	$57.74	$63.64
CBD	35,201,079	314,597	6,543,320	19.5%	-65,606	-321,189	822,310	482,000	$58.28	$69.33
West End/Georgetown	4,837,555	43,228	788,337	17.2%	-43,025	-66,679	62,740	0	$51.73	$58.23
Uptown	3,667,899	17,140	640,756	17.9%	37,277	-148,307	72,115	174,000	$47.80	$50.33
Southwest	11,644,799	10,586	1,994,071	17.2%	-86,683	-199,273	210,270	639,703	$51.33	$53.36
Capitol Riverfront	2,784,932	20,126	598,801	22.2%	28,074	-155,953	82,308	315,000	$55.40	$55.40
DOWNTOWN TOTALS	**112,943,348**	**786,569**	**20,039,224**	**18.4%**	**-120,488**	**-1,124,532**	**2,530,839**	**1,969,883**	**$56.80**	**$63.26**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1900 K Street NW	CBD	Dentons	126,876	Renewal
1101 K Street NW	East End	Sterne Kessler	71,705	New Lease
1025 F Street NW	East End	Morning Consult	63,934	Expansion
800 N Capitol Street NW	NoMa	GSA – Federal Maritime Commission	59,010	Renewal
901 New York Avenue NW	East End	Rothwell Figg	31,260	New Lease

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
WashREIT DC Portfolio (6 Properties)	CBD	WashREIT / Brookfield	919,847	$290M / $315
500 L'Enfant Plaza SW	Southwest	JBGSmith / Deka	215,278	$167M / $773
1029 Vermont Avenue NW	East End	Willco / Terrania AG (Private Owner)	43,432	$12M / $276

KEY CONSTRUCTION COMPLETIONS YTD 2021

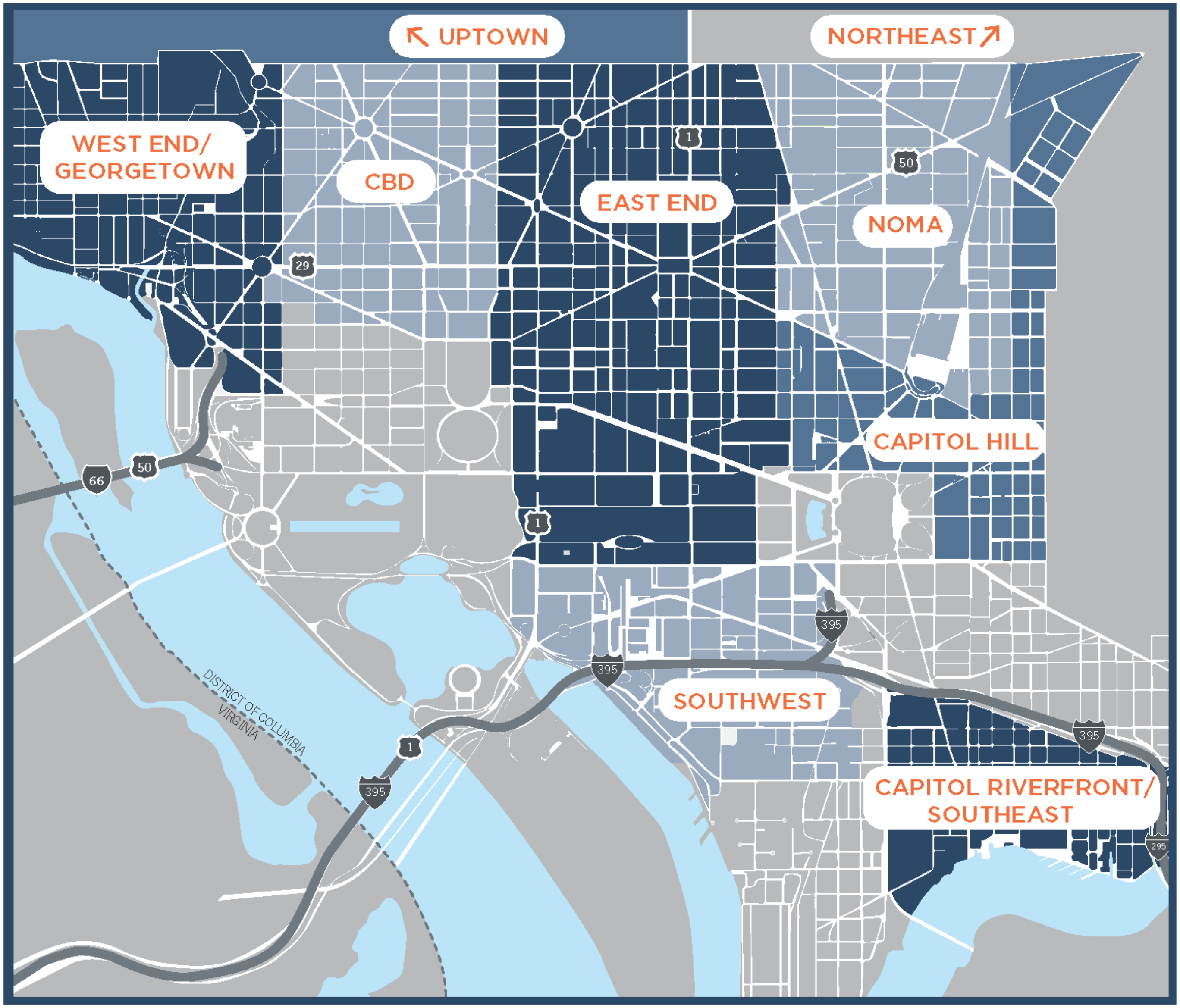
PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
250 M Street SE	Capitol Riverfront	DC Department of Transportation	175,779	WC Smith
1307 New York Avenue NW	East End	CGCN Group	120,961	Marx Realty JV Invesco
1771 N Street NW	CBD	n/a	60,859	Stream Realty

MARKETBEAT

Washington, D.C.

Office Q3 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

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of $7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

cushmanwakefield.com