

18.9%
Vacancy Rate



-89K
Net Absorption, SF



\$55.14
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

3.3 M
D.C. Metro Employment



3.3%
D.C. Metro Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS

Supply and Demand

Washington D.C. registered nearly 90,000 square feet (sf) of negative absorption in Q3 2022 putting year-to-date (YTD) absorption at negative 31,000 sf. Tenants continue to show a preference for high quality space as Class A office registered approximately 60,000 sf of positive absorption while Class B had just under 160,000 sf of negative absorption in the quarter while YTD, Class A absorption totals 550,000 sf while Class B and C total negative 580,000 sf so flight to quality is real and measurable. Two submarkets registered positive absorption in the third quarter- Capitol Hill/NoMa recorded 32,000 sf while Georgetown/West End registered 15,000 sf. This was primarily attributed to Fintech company, Robinhood, moving into 37,091 sf at 250 Massachusetts Avenue NW in Capitol Hill and Premise Data taking 20,207 sf at 1220-1222 22nd Street NW in West End. The East End and CBD submarkets recorded 45,000 sf and 68,000 sf of negative absorption, respectively. In the East End, the law firm McGonigle gave back 30,000 sf at 1001 G Street NW after their merger with Davis Wright Tremaine. Two law firms moved into 901 New York Avenue NW with Rothwell Figg taking 31,260 sf after leaving 25,000 sf at 607 14th Street NW and Duane Morris taking 21,113 sf after leaving nearly 32,000 sf at 505 9th Street NW. In the Central Business District (CBD), research firm Altarum moved out of 25,000-sf in their move to Virginia. The CBD also saw law firm Katz, Marshall & Banks take 11,139 sf and Mathematical Association of America moved into 9,748 sf at 11 Dupont Circle NW while The Asia Group moved into 13,366 sf at 2000 Pennsylvania Avenue NW.

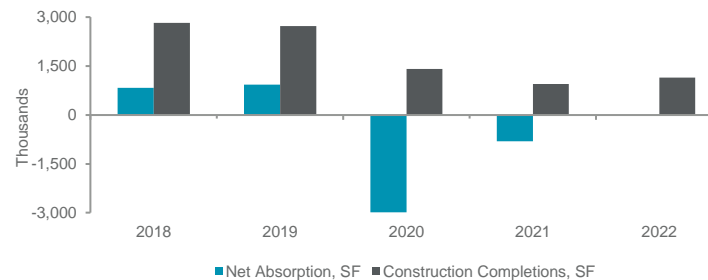
Average rents declined slightly year-over-year (YOY). The average full-service asking rate for the D.C. market dropped \$1.66 per square foot (psf) YOY to \$55.14 psf in Q3 2022. While tenants may not have felt relief on rents, concessions continue to increase to record highs. In the third quarter, the average tenant improvements (TIs) were \$135 psf and had an average free rent concession of 17.3 months or two months free on average per year of lease term. Going forward concessions in D.C. are expected to remain elevated as landlords are trying to solve for near-term occupancy.

Geopolitical instability coupled with economic uncertainty from the Federal Reserve's attempts to rein in inflation has dramatically increased borrowing costs and created lenders' hesitation. Core downtown cap rates which have hovered around 4.5%-4.75% have increased 50 to 75 basis points (bps). The challenging current market climate characterized by increased costs of borrowing, large concessions, and high vacancies has created challenges for owners who want to sell or refinance their properties without taking a financial hit.

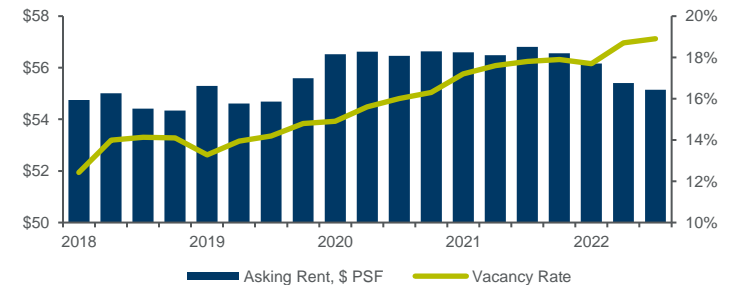
Market Segments

After an active second quarter, new leasing activity slowed in the third quarter registering 630,000 sf across 65 new leases compared to the 1.2 million square feet (msf) across 105 new deals in Q2 2022. Overall, there were 32 leases signed in Q3 2022 over 10,000 sf. There were 60 new direct deals signed in the third quarter for a total of nearly 580,000 sf. CBD registered 285,000 sf of new deals while East End followed with 164,000 sf and Capitol Hill/NoMa saw 55,000 sf of new deals.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Washington, D.C.

Office Q3 2022



Financial Industry Regulatory Authority (FINRA) signed the largest new lease of the quarter after inking 68,030 sf at 1700 K Street NW- the private regulatory member brokerage firm will be moving across the street from owned space and is downsizing its office footprint by 10,000 sf. Van Ness Feldman signed the largest deal for a law firm in the third quarter and will relocate from Georgetown into 44,649 sf at 2000 Pennsylvania Avenue NW in the CBD. In addition, D.C. Government- Dept. of Employment Services leased 23,048 sf at 1717 H Street NW in the CBD along with Cravath taking 20,695 sf at 1601 K Street NW and Virtru signing for 17,106 sf at 1801 Pennsylvania Avenue NW. East End saw American Center for Physics take 30,461 sf at 555 12th Street NW, Kilpatrick Townsend ink 27,579 sf at 701 Pennsylvania Avenue NW and HGA take 17,000 sf at 1025 F Street NW. Carr Workplaces took 27,500 sf at 300 New Jersey Avenue NW in Capitol Hill/NoMa. The largest sublet signed in the quarter was by law firm Quarles & Brady taking 20,464 sf from Bookoff McAndrews at 2020 K Street NW.

Renewals registered just over 600,000 sf in Q3 2022- this was driven by US Customs & Border Protection renewing 194,836 sf at 1331 Pennsylvania Avenue NW in the East End and 99,515 sf at 90 K Street NE in Capitol Hill/NoMa. AT&T renewed and expanded at 601 New Jersey Avenue NW- the telecommunications company renewed 31,522 sf, expanded by 18,467 sf on two floors, and sublet an additional 19,085 sf. Additionally, AT&T gave back 14,000 sf when they renewed at 1120 20th Street NW, leaving them in 33,272 sf. East End registered 281,040 sf of renewals in the third quarter. East End also saw Wounded Warrior Project renew 16,976 sf at 1120 G Street NW and Space-X remain at 1155 F Street NW in 14,191 sf. CBD registered 122,100 sf of renewals- tech law firm Zwilgen remained in 16,797 sf at 1900 M Street NW while Lowenstein Sandler renewed their 15,588 sf sublease at 2200 Pennsylvania Avenue NW.

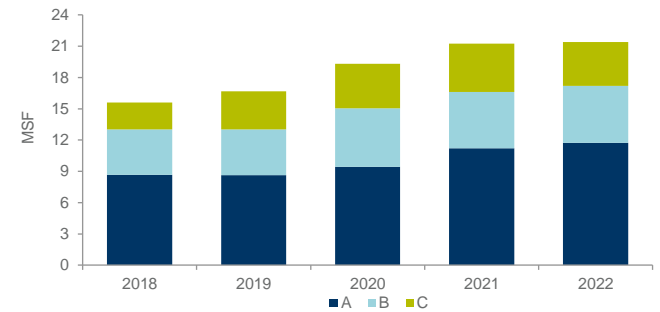
Development Pipeline & Outlook

The International Baccalaureate's headquarters at 3950 Wisconsin Avenue NW was delivered in Q3 2022 and the education nonprofit, which is scheduled to move in Q4 2022, has put 57,148 sf on the sublet market. City Ridge's 3900 Wisconsin Avenue NW is scheduled to be completed in the fourth quarter and has 62,000 sf preleased to coworking company, Industrious, and fast-casual restaurant Cava. The Wharf's second phase is nearly complete with 610 Water Street SW slated to deliver 90,000 sf in Q4 2022. Freedom Forum and The Atlantic have preleased 25,000 sf and 35,000 sf, respectively, at 610 Water. D.C.'s first mass timber project was completed in Q3 with the addition of three floors at 80 M Street SE. The building has attracted several companies like Walmart, BP, and The American Truckers Association to move to the Capitol Riverfront market.

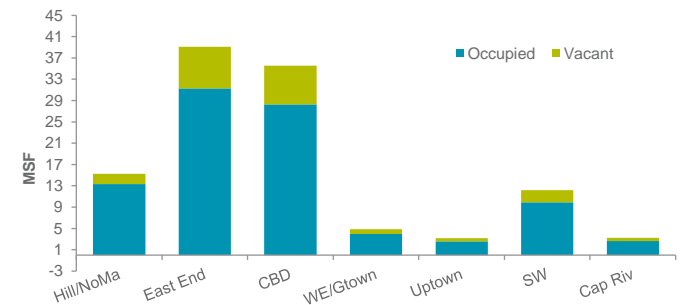
In 2023, 20 Massachusetts Avenue's top stack trophy renovation is scheduled to deliver followed by Skanska's project at 1700 M Street, NW in 2024 where Gibson Dunn has leased 164,000 sf. Douglas Development is looking to kick off the SEC's 1.2 msf build-to-suit at 60 New York Avenue NE amid the possibility that the GSA may give back some of the space they've committed to occupy. Finally, Crowell & Moring is rumored to be finalizing a relocation to a new development at 600 5th Street NW that is likely to break ground in 2023.

With multifamily demand remaining robust even in the face of record deliveries, several empty, older buildings in the District core are moving closer to residential conversion. Lincoln Property in a joint venture with Cadillac Fairview has proposed 264 units at 1125 15th Street NW with ground break scheduled in the fourth quarter while Foulger Pratt is gearing up to start the conversion at 1425 New York Avenue NW into a 255-unit apartment by the end of 2022. The proposal pipeline also includes the former Peace Corp building at 1111 20th Street NW which Willco has slated for 161 units. Philadelphia-based development firm Post Brothers purchased 1825 and 1875 Connecticut Avenue NW in April 2022 for \$228 million for conversion to apartments. Currently being constructed is Lincoln Property Company's 222-unit apartment building at 1313 L Street NW which is expected to deliver in mid-2023. In total, Cushman & Wakefield is tracking about 5.4 msf of existing office inventory that is planned or scheduled to be converted to residential, educational, or hotel uses.

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	15,252,483	7,432	1,911,576	12.6%	31,952	-27,411	281,066	0	\$53.25	\$54.83
East End	39,103,835	295,760	7,504,016	19.9%	-44,626	-206,797	1,288,711	0	\$55.83	\$61.09
CBD	35,563,036	284,641	7,018,456	20.5%	-67,731	35,571	820,385	299,987	\$56.32	\$67.81
West End/Georgetown	4,837,555	43,228	847,533	18.4%	15,301	-44,561	147,086	0	\$51.42	\$60.08
Uptown	3,175,352	64,801	532,790	18.8%	-10,043	-14,073	51,649	62,000	\$48.40	\$50.19
Southwest	12,194,502	10,586	2,282,462	18.8%	-4,995	256,640	43,420	378,000	\$51.42	\$53.27
Capitol Riverfront	3,225,932	0	586,487	18.2%	-9,248	-30,640	67,943	0	\$59.75	\$59.75
DOWNTOWN TOTALS	113,352,695	706,448	20,683,320	18.9%	-89,390	-31,271	2,700,260	739,987	\$55.14	\$61.15

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1331 Pennsylvania Avenue NW	East End	US Customs & Border Protection	194,836	Renewal*
90 K Street NE	Capitol Hill/NoMa	US Customs & Border Protection	99,515	Renewal*
601 New Jersey Avenue NW	Capitol Hill/NoMa	AT&T	69,074	Renewal* & Sublet
1700 K Street NW	CBD	Financial Industry Regulatory Authority (FINRA)	68,030	New Lease
2000 Pennsylvania Avenue NW	CBD	Van Ness Feldman	44,649	New Lease
555 12 th Street NW	East End	American Center for Physics	30,461	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
601 Massachusetts Avenue NW	East End	Boston Properties / Mori Trust Co.	478,882	\$531,000,000 / \$1,108.83
1801 L Street NW	CBD	The Kaplan Family / Empire Leasing, Inc.	199,846	\$64,750,000 / \$324.00

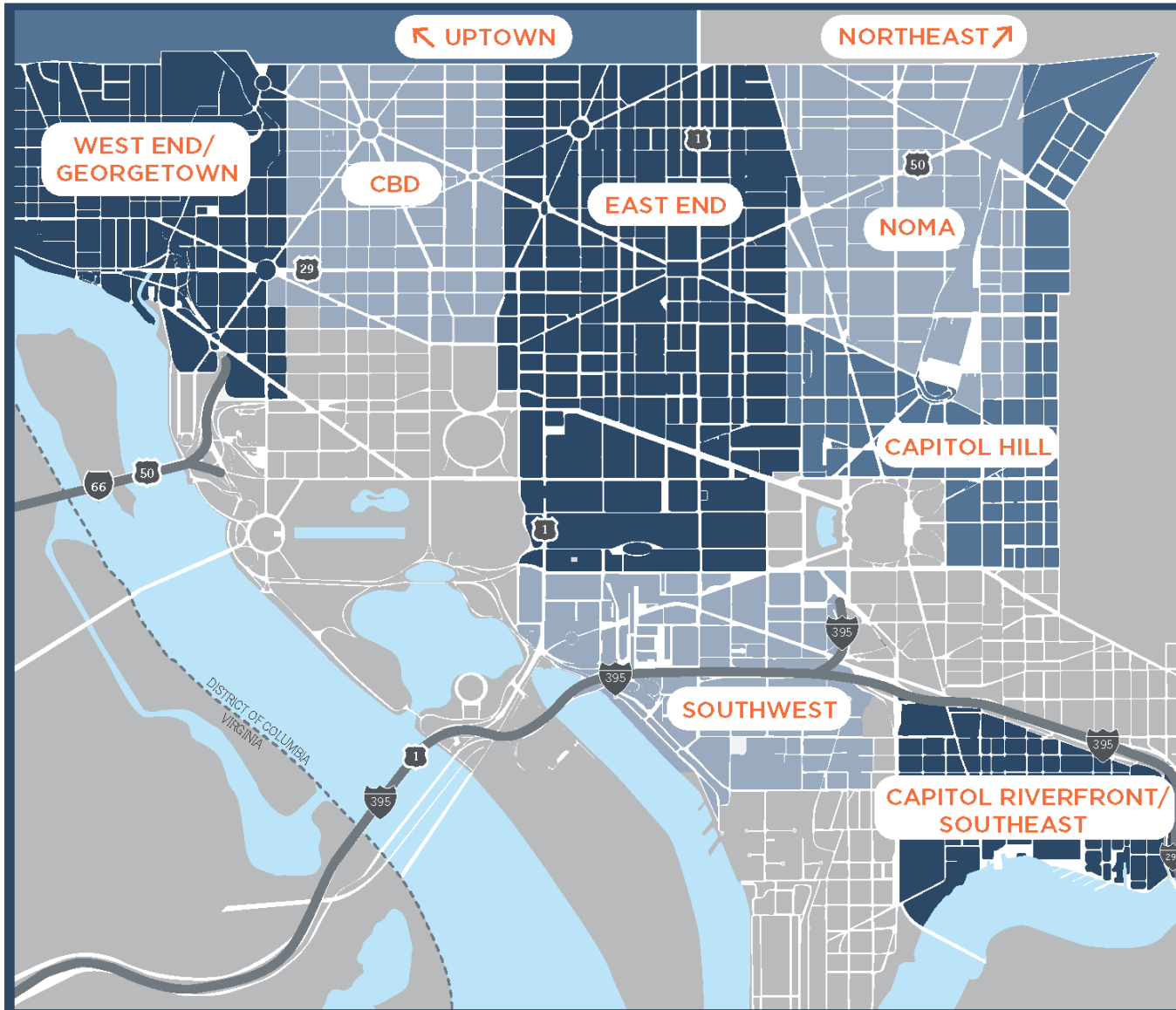
KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
2100 Pennsylvania Avenue NW	CBD	WilmerHale	482,000	Boston Properties
680 Maine Avenue SW	Southwest	Williams & Connolly	293,953	Madison Marquette/Hoffman
670 Maine Avenue SW	Southwest	PhRMA	255,750	Madison Marquette/Hoffman
3950 Wisconsin Avenue NW	Uptown	International Baccalaureate Organization	112,000	Roadside /North American Sekisui House

Washington, D.C.

Office Q3 2022

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