

# Washington, D.C.

Office Q4 2022



	YoY Chg	12-Mo. Forecast
<b>19.5%</b> Vacancy Rate	▲	▲
<b>-467K</b> Net Absorption, SF	▲	▼
<b>\$55.60</b> Asking Rent, PSF	▼	▬

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
<b>3.3 M</b> D.C. Metro Employment	▲	▲
<b>3.4%</b> D.C. Metro Unemployment Rate	▼	▲
<b>3.7%</b> U.S. Unemployment Rate	▼	▲

Source: BLS

## Economy

Economic uncertainty continued in Q4 2022 as the Federal Reserve (the Fed) raised interest rates for the seventh time this year to 4.375% which is the highest rate since the great recession 15 years ago. The Fed also signaled that there will not be any rate reductions until 2024 and the point where the Fed is expected to end rate hikes is estimated at 5.1%. Most of the Fed's rate hikes have already happened and it is expected that the Fed will be less aggressive in their rate hikes in 2023 as evident from their recent hike in December 2022 of 50 basis points (bps) compared to previous rate hikes of 75 bps, which most recently occurred in November, but also has happened three other times this year.

In this increasingly challenging borrowing environment, some landlords are struggling to meet market concession packages that remain elevated with TIs reaching \$175 with 20 plus free months for large leases that solve for near-term occupancy. While sales are limited and many marketed buildings have failed to transact, core downtown cap rate guidance which had hovered around 4.5%-4.75% have increased at least 50 and possibly as high as 125 bps. The challenging current market climate characterized by increased costs of borrowing, large concessions, and high vacancies has created challenges for owners, especially of Class B and C properties who are finding it increasingly difficult to sell or refinance their properties.

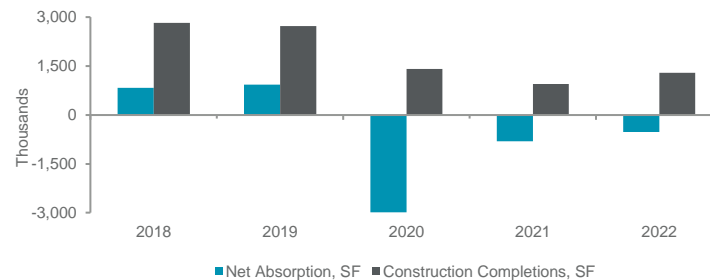
## Market Segments

New leasing activity for Washington D.C. slowed for the second consecutive quarter registering just over 460,000 square feet (sf) across 60 new leases compared to the 755,000 sf across nearly 90 new deals in Q3 2022. While the number of deals was relatively flat compared to 2021, new leasing activity fell by 57% to 3.4 msf in 2022 compared to the 5.3 msf signed in 2021. In 2022, there were 345 new deals signed for just under 3.4 msf. Tenants continued to show a preference for higher quality space as Class A inked 66% of new deals with 2.2 msf signed while Class B and C split the remaining 34% at 540,000 sf and 590,000 sf, respectively, so the flight to quality remains widespread.

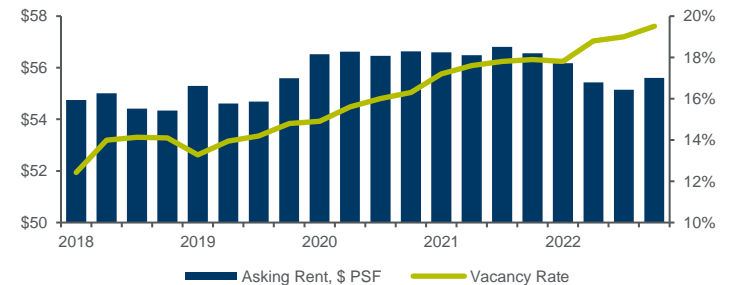
In the core submarkets, CBD registered 280,500 sf of new deals while East End followed with almost 131,500 sf- 79% of these deals were in Class A buildings. The fourth quarter recorded 22 leases over 10,000 sf and no leases signed over 100,000 sf. The law firm Orrick inked the largest new deal of the quarter at 2100 Pennsylvania Avenue NW for 77,000 sf while the National Fish and Wildlife Foundation took 62,039 sf at 1625 Eye Street NW in the CBD. The American Bar Association had the largest deal signed by a nonprofit organization renewing 34,348 sf at 1050 Connecticut Avenue NW. The largest sublease signed in the quarter occurred in the Capitol Hill/NoMa submarket where Amerigroup DC, a health insurance agency, took 14,276 sf at 609 H Street NE. The law firm of Allen & Overy had the largest renewal of the quarter when they renewed and expanded into 40,914 sf in the East End at 1101 New York Avenue NW.

Renewal activity also slowed down in the fourth quarter registering just under 313,000 sf in Q4 2022 over 31 deals- this was driven by CBD and East End recording 116,000 sf and 166,000 sf, respectively. In the East End, the National Retail Federation renewed 31,115 sf at 1101 New York Avenue NW, the law firm of Covington & Burling renewed in 24,000 sf at 1001 G Street NW, and the National Business Aviation

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT



# Washington, D.C.

Office Q4 2022



Another agency kept their 17,489 sf space at 1200 G Street NW. In the CBD, the Federalist Society kept 13,500 sf at 1776 Eye Street NW while The Philanthropy Roundtable remained in 13,171 sf at 1120 20th Street NW. In 2022, tenants renewed for nearly 2.8 msf- a 36% decrease compared to the 4.3 msf signed in 2021. Class A accounted for nearly 49% of all renewals at 1.4 msf while Class B accounted for 42% at 1.2 msf renewed.

## Supply and Demand

The District registered slightly under 470,000 sf of negative overall absorption in Q4, which put absorption at negative 520,381 sf for the year. The main driver of negative absorption in Q4 was coworking company WeWork giving back nearly 290,000 sf across three buildings- 225,000 sf at 655 15th St NW in the East End, 42,000 sf at 1875 K Street NW in the CBD, 25,000 sf at 660 N Capitol Street NW in Capitol Hill/NoMa. In addition to WeWork, the city saw DHS moving out of nearly 60,000 sf at 375 E Street SW in Southwest, Albright Stonebridge terminating 32,000 sf at 601 13th Street NW in the East End in its merger with Dentons and Schiff Hardin putting 22,000 sf on the sublet market in the East End after its merger with Arent Fox. Other departures or downsizing that contributed to the negative absorption were technology company Inovalon vacating nearly 32,000 sf at 1350 Connecticut Avenue NW, Atlantic Media adding 30,000 sf to the sublease market at 600 New Hampshire Avenue NW, MissionSquare putting 21,000 sf up for sublet at 777 N Capitol Street NE and Sage Publishing vacating nearly 17,000 sf at 2600 Virginia Avenue NW.

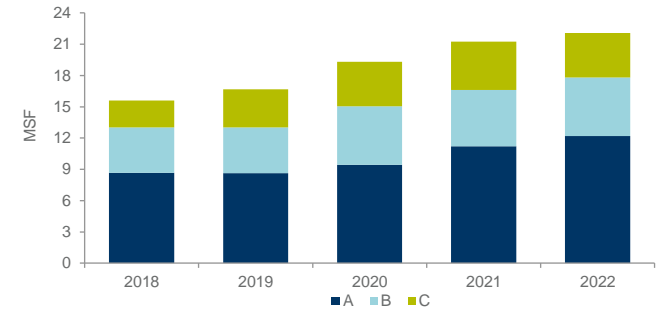
Notable move ins include investment management firm Brown Advisory taking 32,000 sf and biotechnology company Abbott Labs moving into 19,000 sf at 1801 Pennsylvania Ave NW, Greenpeace and Bank Policy Institute taking 30,000 sf at 1300 Eye Street NW and Cinq Care moving into 24,255 sf at 2300 N Street NW. Freedom Forum and Atlantic Media's new home at 610 Water Street SW delivered in the fourth quarter along with 14 Ridge Square where Cava has taken 20,000 sf and Industrious is expected to open in Q1 2023.

## Development Pipeline & Outlook

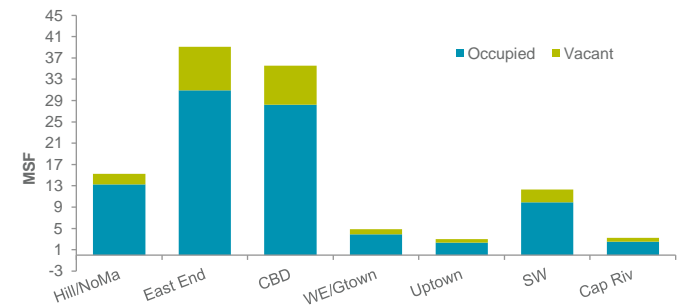
In 2023, 20 Massachusetts Avenue NW's top stack trophy renovation is scheduled to deliver followed by Skanska's project at 1700 M Street NW in 2024 where Gibson Dunn has leased 164,000 sf. Douglas Development is looking to kick off the SEC's 1.2 msf build-to-suit at 60 New York Avenue NE- while the SEC gave back approximately 400,000 sf, the GSA will have to find another agency to occupy the space they've committed to lease. Finally, Crowell & Moring is still rumored to relocate within the East End to the proposed 600 5th Street NW development that is likely to break ground in 2023. While it still remains to be seen, uncertainty in the debt markets have the potential to pause planned office developments as securing construction financing remains difficult in the current environment.

With multifamily demand remaining robust even in the face of record deliveries, several empty, older buildings in the District are moving closer to residential conversion. Currently under construction are Willco's 161 unit conversion at 1111 20th Street NW, Lincoln Property Company's 222-unit apartment building at 1313 L Street NW, and Foulger Pratt's 255 unit apartment building at 1425 New York Avenue NW. Lincoln Property's joint venture with Cadillac Fairview at 1125 15th Street NW has been delayed and is expected to start conversion in mid-2023. Post Brothers has plans to convert 1825 and 1875 Connecticut Avenue NW into 500 apartments. Also of note, the top two sales of the fourth quarter were purchased to be redeveloped into apartments- Altus Realty with McLean Partners purchased 1010 Vermont Avenue NW for \$15.94 million with plans to convert the 63,000 sf building into 89 units and 1735 K Street NW was purchased by Bernstein Management in a joint venture with Urban Atlantic for \$15.5 million with plans to convert the 97,000 sf building into a 106 unit "flex housing hospitality" building. 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	32,245	1,927,578	12.8%	-35,561	-68,226	314,174	0	\$53.13	\$54.93
East End	39,103,835	345,606	7,813,994	20.9%	-344,348	-566,621	1,535,748	0	\$57.06	\$63.98
CBD	35,563,036	320,883	7,028,703	20.7%	-54,013	-22,183	1,159,062	320,782	\$56.32	\$67.67
West End/Georgetown	4,837,555	61,537	861,724	19.1%	-32,500	-77,061	148,622	0	\$51.13	\$60.00
Uptown	2,999,723	64,801	578,881	21.5%	8,730	1,836	75,421	0	\$47.86	\$50.43
Southwest	12,284,502	10,586	2,349,683	19.2%	-8,687	279,419	43,860	288,000	\$51.13	\$52.74
Capitol Riverfront	3,225,932	68,261	623,392	21.4%	-853	-67,545	88,871	0	\$60.72	\$60.72
<b>DOWNTOWN TOTALS</b>	<b>113,267,066</b>	<b>903,919</b>	<b>21,183,955</b>	<b>19.5%</b>	<b>-467,232</b>	<b>-520,381</b>	<b>3,365,758</b>	<b>608,782</b>	<b>\$55.60</b>	<b>\$62.45</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2100 Pennsylvania Avenue NW	CBD	Orrick	77,000	New Lease
1625 Eye Street NW	CBD	National Fish & Wildlife	62,039	New Lease
1101 New York Avenue NW	East End	Allen & Overy	40,914	Renewal*, Expansion
1050 Connecticut Avenue NW	CBD	American Bar Association	34,348	Renewal
1101 New York Avenue NW	East End	National Retail Federation	31,115	Renewal
1001 G Street NW	East End	Covington & Burling	24,000	Renewal

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1010 Vermont Avenue NW	East End	Pembroke Real Estate / Altus Realty JV McLean Partners	82,539	\$15,935,800 / \$193.07
1735 K Street NW	CBD	Beacon Capital / Bernstein Management JV Urban Atlantic	96,720	\$15,500,000 / \$160.26

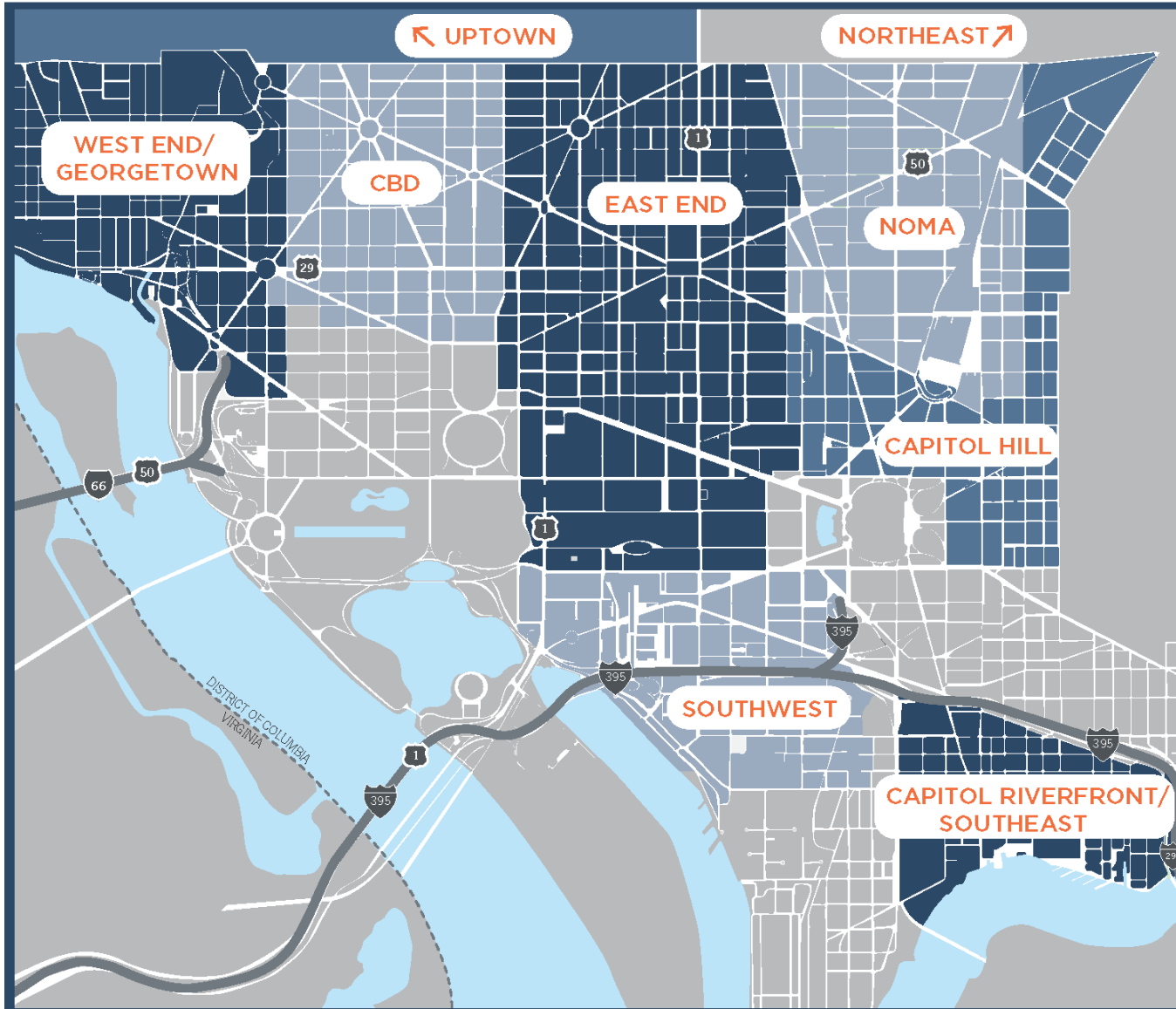
## KEY CONSTRUCTION COMPLETIONS YTD 2022

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
610 Water Street SW	Southwest	The Atlantic / Freedom Forum	90,000	Madison Marquette/Hoffman
3900 Wisconsin Avenue NW/14 Ridge Sq	Uptown	Industrious / Cava	62,000	Roadside Development

# Washington, D.C.

Office Q4 2022

OFFICE SUBMARKETS



**Chris Whittle**  
 Research Analyst  
 +1 202 721 2350 / [Christopher.Whittle@cushwake.com](mailto:Christopher.Whittle@cushwake.com)

**Lauren Kraemer**  
 Associate Director  
 +1 202 266 1316 / [lauren.kraemer@cushwake.com](mailto:lauren.kraemer@cushwake.com)

**Nathan Edwards**  
 Senior Director  
 +1 202 266 1189 / [nathan.edwards@cushwake.com](mailto: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 over 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

*©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.*

[cushmanwakefield.com](http://cushmanwakefield.com)