MARKETBEAT

Washington, D.C.

Office Q4 2023

	YoY Chg	12-Mo. Forecast
20.7% Vacancy Rate	▲	▲
-107K Net Absorption, SF	▼	▼
$54.80 Asking Rent, PSF	▼	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2023

	YoY Chg	12-Mo. Forecast
3.4 M D.C. Metro Employment	▲	▲
2.4% D.C. Metro Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

Economy

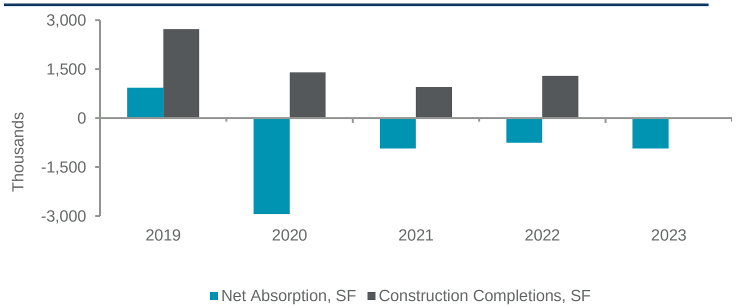
After four rate hikes in 2023, the Federal Reserve (the Fed) has signaled that inflation is beginning to ease and forecasted at least three rate cuts in 2024. Given the number of economic headwinds at the beginning of the year, the consensus was that the US economy was headed towards a recession. Still, it never materialized in 2023 and with the Fed's latest guidance, it seems the Fed will pivot from raising rates and will decrease interest rates starting in Q2 2024. Cushman & Wakefield expects the federal fund rate to fall by 150 basis points (bps) in 2024 from its current rate of 5.0%-5.5% and will eventually stabilize at 2.5% in the long run. It was a challenging year for capital markets as building sales dwindled. With inflation expectations easing, Q4 was the busiest quarter of the year for capital markets with three notable buildings selling for over $280 million combined.

Market Segments

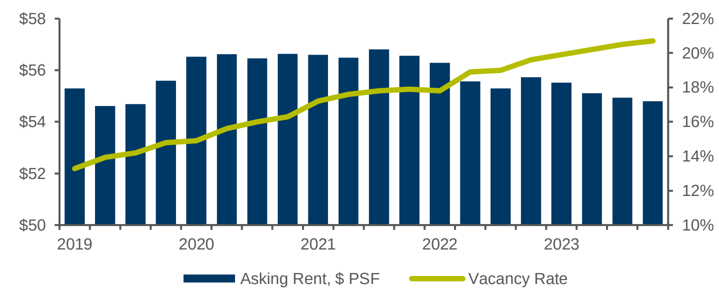
New leasing activity for Washington, D.C. slowed for the second consecutive quarter registering nearly 490,000 square feet (sf) compared to the 664,000 sf in Q3 2023. While the number of deals was relatively flat compared to 2022, new leasing activity fell by 14% to 3.1 million square feet (msf) in 2023 compared to the 3.6 msf signed in 2022. In 2023, there were 538 deals signed for just over 6.9 msf of gross leasing, with new leasing recording just under 3.1 msf and renewals registering slightly under 3.8 msf year-to-date (YTD). Tenants continued to show a preference for high quality space throughout the year as Class A inked 73% of new deals with 2.2 msf signed while Class B and C split the remaining 27% with 567,000 sf and 270,000 sf, respectively. Tenants also preferred the core submarkets as the East End and CBD recorded 1.3 msf and 1.2 msf respectively, almost 84% of all of 2023's new leases.

Law firms inked 156,000 sf in gross leasing during Q4 with 86,000 sf in renewals and 69,000 sf in new leasing. The largest lease signed by a law firm was Cohen Milstein's renewal of 41,281 sf at 1100 New York Ave NW, a slight contraction of 6,719 sf from their previous footprint in the Greyhound Building. Law firm Bryan Cave renewed 23,207 sf after shedding two full floors at 1155 F Street, NW; however, part of that space was already subleased. After the SEC announced their one msf renewal and contraction at Station Place last quarter, several government agencies inked large renewals in Q4. Government tenants made up 52%, or 358,000 sf, of renewal activity after DC government's DCPS and DOEE signed a renewal/expansion for 215,076 sf at 1200 1st Street, NE and the Federal Aviation Administration renewed a combined 125,103 sf at 370 and 950 L'Enfant Plaza, SW. The largest new leases inked this quarter included IREX (International Research and Exchanges Board) at 1350 Eye Street, NW for 32,899 sf, a slight contraction from their current 38,000 sf office at 1275 K Street, NW and American Forest & Paper downsizing slightly by 9,000 sf into 20,110 sf at 601 13th Street, NW. On the sublet market, Progressive Policy Institute took 20,464 sf at 1919 M Street, NW, part of College Board's previous space. This deal was also a noteworthy expansion as Progressive Policy Institute increased their office space by 387% after leaving 4,200 sf at 1156 15th Street, NW.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



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Supply and Demand

Vacancy rates increased 40 basis points (bps) from the previous quarter to 20.7% in Q4. Class A increased 40 bps from Q3 to 18% while Class B increased 20 bps to 24.0% and Class C rose 90 bps to 26.4%. Compared to the 19.5% vacancy at the end of 2022, vacancy rose 120 bps with Class A increasing 30 bps, Class B rising 270 bps, and Class C jumping 280 bps. In the coming year, expect vacancy rates to remain elevated as companies continue to reevaluate their space needs especially across Class B and C buildings while trophy vacancy rates will continue to dwindle as tenants prefer the top assets in the market.

Absorption in Q4 was down for the eighth consecutive quarter registering negative 107,013 sf, bringing year-to-date absorption to negative 935,881 sf. Negative absorption in Q4 was primarily driven by Class B and C products which registered a total of negative 155,435 sf, while Class A recorded 48,422 sf of positive absorption.

Absorption in the East End was driven by United Healthcare putting 91,847 sf on the sublet market at 655 New York Avenue, NW. This negative absorption in the East End was partially offset with 555 12th Street, NW absorbing 73,000 sf after the Environmental Defense Fund took 34,584 sf and American Center for Physics moving into 30,461 sf after leaving College Park. In the CBD, Meridiam Infrastructure moved into its 20,780 sf HQ after relocating their Americas HQ from New York City. Financial Industry Regulatory Authority moved into 71,085 sf at 1700 K Street, NW after the regulatory authority sold their building at 1735 K Street, NW. The 79,727-sf former K Street office building will be converted into luxury apartments and a hotel.

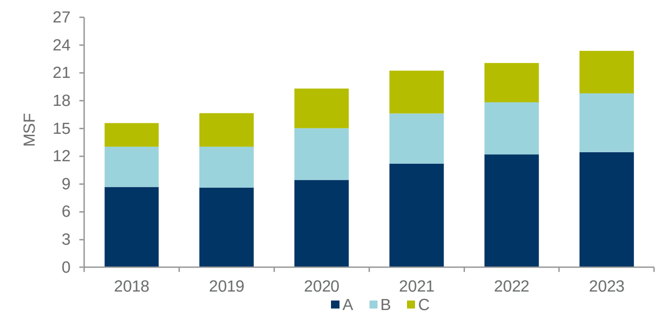
Since the pandemic, rents in Washington, D.C. have been relatively flat going from $55.59 per square foot (psf) at the end of 2019 to $54.80 psf in 2023. While rents have remained consistent, concessions packages have increased dramatically. Tenant improvements (TIs) grew from an average of $100 in 2019 to $140 psf in 2023 while abatement packages increased from 1.2 months to 1.7 months per year of term for deals in core submarkets over 10,000 sf with five years or more of lease term. However, concessions are off their highs of $145 psf in TIs and two months free per year of term and show signs of further declines. Future concessions are expected to fall as landlords are more willing to trade lower rents for concession packages because they do not have the funding to support these larger packages.

Development Pipeline

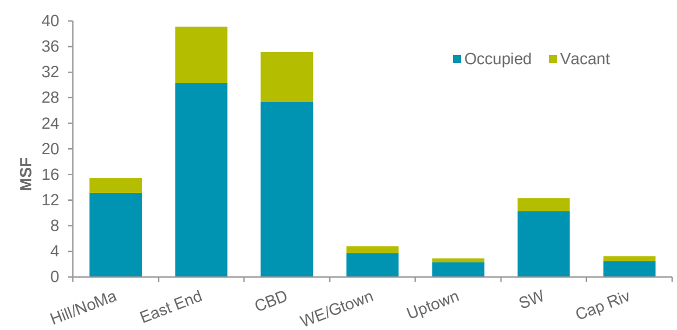
New trophy products under construction are now at 700,782 sf, the lowest point in over twenty years, compared to 2.2 msf average annual deliveries from 2018 to 2022. These two projects combined are 56% pre-leased- Gibson Dunn took 164,000 sf in 2021 and UBS Financial signed for 24,000 sf in Q1 2023 at 1700 M Street, NW while Crowell & Moring signed 198,877 sf at 600 5th Street, NW in Q2. The slowdown in new construction is caused by several factors including inflation in the price of materials, labor pricing and constraints, and a much stricter construction lending environment. The rent needed to economically build new construction will also be significantly higher than in even recent transactions.

Office-to-residential conversion remains an attractive option to transform DC's obsolete office inventory into new housing. Currently, there are 20 office buildings totaling four msf under conversion or planned to be converted into nearly 4,000 apartments with another 14 buildings totaling three msf that could meet the same fate. In this challenging environment, some of these office-to-residential projects may struggle to secure the financing to break ground on their conversions. In addition, it remains to be seen what rents these projects will achieve in areas that until very recently were dominated by office products.

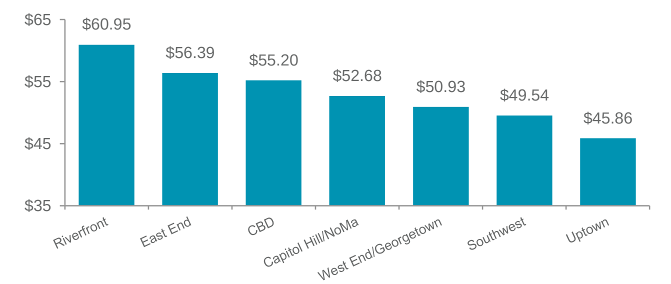
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



SUBMARKET ASKING RENT



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CUSHMAN & WAKEFIELD

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	15,430,807	38,673	2,241,463	14.8%	-72,153	-82,580	165,569	0	$52.68	$54.87
East End	39,103,107	440,194	8,412,850	22.6%	-5,440	-150,126	1,315,639	380,000	$56.39	$64.10
CBD	35,128,719	405,255	7,382,780	22.2%	57,630	-483,306	1,265,430	320,782	$55.20	$63.58
West End/Georgetown	4,806,248	140,396	924,634	22.2%	-13,519	-158,358	130,269	0	$50.93	$57.10
Uptown	2,896,111	67,821	565,692	21.9%	-17,925	23,258	21,093	0	$45.86	$49.08
Southwest	12,284,502	17,835	1,997,173	16.4%	-23,092	-44,309	114,047	0	$49.54	$51.80
Capitol Riverfront	3,225,932	117,435	640,071	23.5%	-32,514	-40,460	69,264	0	$60.95	$60.95
DOWNTOWN TOTALS	**112,875,426**	**1,227,609**	**22,164,663**	**20.7%**	**-107,013**	**-935,881**	**3,081,311**	**700,782**	**$54.80**	**$61.51**

**Rental rates reflect full service asking*

KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1200 1st Street, NE	Capitol Hill/NoMa	DC Government- DCPS & DOEE	215,076	Renewal*/Expansion
750 9th Street, NW	East End	Smithsonian Institute	133,984	Renewal*
950 L'Enfant Plaza, SW & 370 L'Enfant Plaza, SW	Southwest	GSA- FAA	125,103	Renewal*
1100 New York Avenue, NW	East End	Cohen Milstein Sellers & Toll	41,281	Renewal*
1625 Eye Street, NW	CBD	Legal Services Corporation	38,000	New Lease
1350 Eye Street, NW	East End	IREX (International Research & Exchanges Board)	32,899	New Lease
1155 F Street, NW	East End	Bryan Cave	23,207	Renewal*

**Renewals not included in leasing statistics*

KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
700 2nd Street, NE (Station Place III)	Capitol Hill/NoMa	Property Group Partners JV Fisher Brothers / Kaiser Permanente	517,653	$197,750,000 / $382.01
1250-1280 Maryland Avenue, SW (Portals I)	Southwest	LNR Partners / Henderson Park	536,000	$154,865,880 / $288.93

KEY UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
600 5th Street, NW	East End	Crowell & Moring	382,092	Stonebridge JV Rockefeller Group
1700 M Street, NW	CBD	Gibson Dunn	320,782	Skanska

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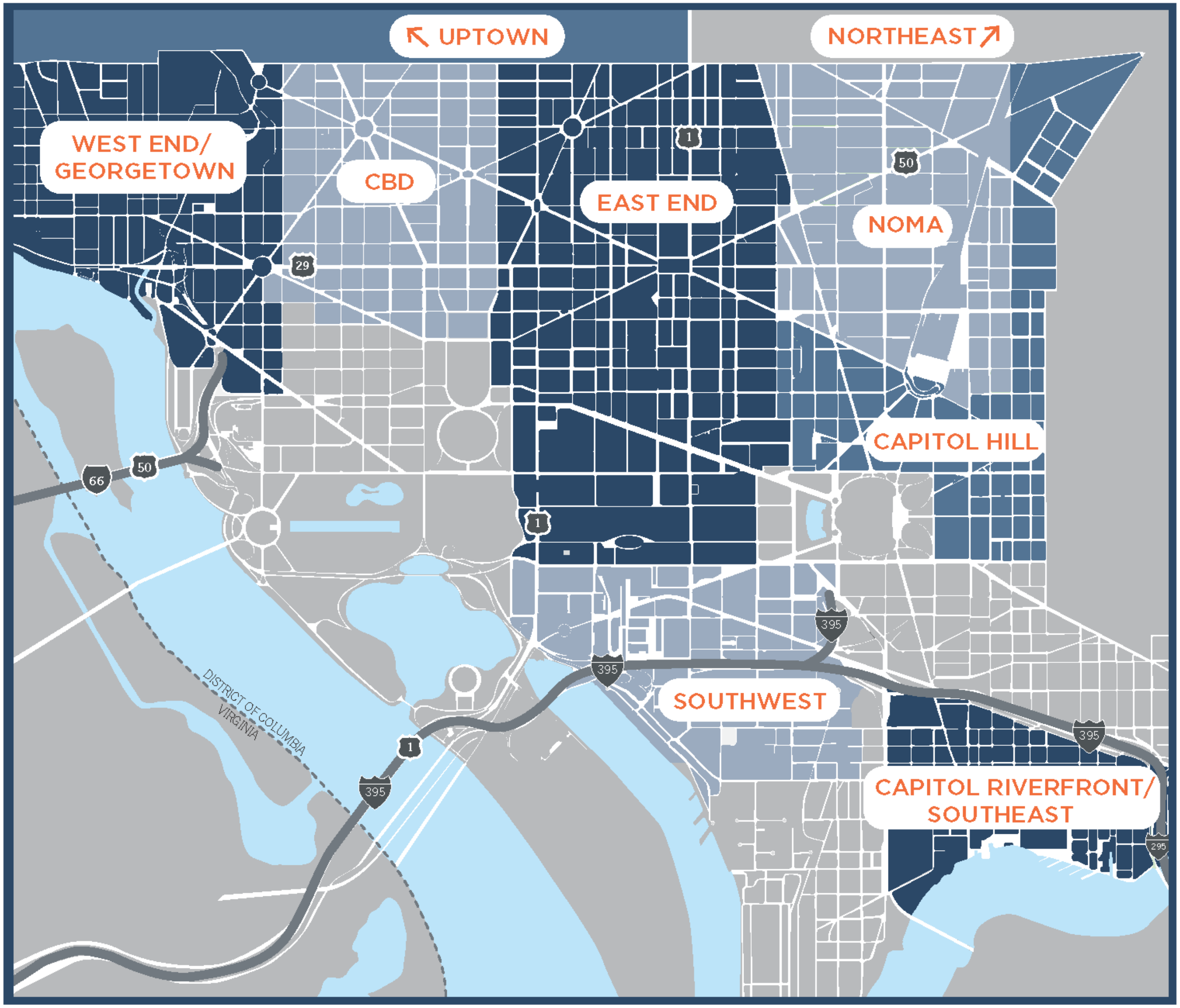
OFFICE SUBMARKETS



Chris Whittle
Research Analyst
+1 202 721 2350/ Christopher.Whittle@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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