

Washington, D.C.

Office Q1 2024



	YoY Chg	12-Mo. Forecast
21.2% Vacancy Rate	▲	▲
-347K Net Absorption, SF	▼	▼
\$54.92 Asking Rent, PSF	▼	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2024

	YoY Chg	12-Mo. Forecast
3.4 M D.C. Metro Employment	▲	▲
2.9% D.C. Metro Unemployment Rate	▼	▲
3.8% U.S. Unemployment Rate	▲	▲

Source: BLS

Economy

After recent meetings, the Federal Reserve (the Fed) has stood patient in discussing potential rate cuts this year. Inflation has started to recede, but the Fed is committed to cutting rates cautiously until the target 2% inflation rate is reached. While the current federal funds rate remains between 5.0% - 5.5%, Cushman & Wakefield believes there could be three, 25 basis point (bps) cuts in 2024, resulting in an overall federal funds rate of around 4.6% by the end of the year. In Washington, D.C. capital market sales volume increased 150% YOY to \$738 million in sales volume in Q1 24. Notably, the recent transactions of 1099 New York Ave, NW and Market Square have accounted for \$418 million in sales volume. These transactions, mixed with expected rate cuts, have signaled some optimism for increased liquidity for the rest of the year.

Market Segments

In Q1 2024, gross leasing for Washington D.C. recorded 1.8 million square feet (msf), up 27% from 1.4 msf registered in Q4 2023. Renewals made up 75% of gross leasing with 1.3 msf inked while new deals accounted for 440,000 signed. Renewal activity in Q1 went up 65% from the 814,000-sf signed in Q4 2023. Nine out of the top ten largest deals signed this quarter were renewals and renewals accounted for 56% of the deals over 10,000 sf signed. Washington, D.C. saw three deals over 100,000 sf renewed this quarter: The Washington Post remained in 297,176 sf at 1301 K St, NW, DC Department of General Services signed an early renewal/restructure for 274,122 sf at 1101 4th St, SW and Finnegan gave back a floor while renewing 214,000 sf at 901 New York Ave, NW. East End made up 59% of renewal activity due to tenants such as Washington Post, Finnegan, IBM and Toyota Motor staying in their offices.

There were 16 new deals over 10,000 sf signed in Q1, totaling 259,000 sf. The CBD and East End submarkets captured 71% of new leasing activity in the first quarter with 188,000 sf and 125,000 sf inked, respectively. In the CBD, Nuclear Threat Initiative expanded slightly to 21,802 sf after moving within 1776 Eye St, NW, PENTA will consolidate two locations into 19,114 sf at 1666 K St, NW and Slevin & Hart will contract slightly into 13,444 sf at 1300 Connecticut Ave, NW. In the East End, Latham & Watkins took its space prime after signing for 20,173 sf at 555 11th St, NW, TransPerfect sublet 18,500 sf at 1001 G St, NW and Sullivan & Cromwell expanded by 14,608 sf at 1700 New York Ave, NW. Capitol Hill/NoMa recorded 55,985 sf after American Council of Life Insurers inked 27,330 sf and ClearPath took 11,349 sf at 300 New Jersey Ave, NW. The Wharf accounted for 44,257 sf of new deals with Williams & Connolly's 25,490 sf expansion at 670 Maine Ave, SW and Cisco Systems taking 12,306 sf at 1000 Maine Ave, SW.

Law firms made up nearly 25% of all gross leasing, or 443,561 sf inked across 18 different deals signed in Q1 2024. Additionally, Q1 gross leasing saw a boost from news publishers after The E.W. Scripps Company and The Washington Post renewed at 1100 13th St NW and 1301 K St NW, respectively, making up 17.5% of all gross leasing.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



Washington, D.C.

Office Q1 2024

Supply and Demand

Washington, DC recorded just under negative 350,000 sf of absorption in Q1. East End and West End/Georgetown drove negative absorption this quarter primarily due to several law firms downsizing and leaving the submarkets. In the East End, law firm Orrick vacated their 133,000-sf office at 1152 15th St NW for 104,000 sf at 2100 Pennsylvania Ave NW, Morris Manning moved out of 36,000 sf at 1401 Eye St, NW into 28,000 sf at 1333 New Hampshire Ave, NW, and Powers Pyles left 32,000 sf at 1501 M St, NW for 24,000 sf at 1250 Connecticut Ave, NW. In Georgetown, Van Ness Feldman vacated 91,000 sf at 1050 Thomas Jefferson St, NW for 45,000 sf at 2000 Pennsylvania Ave, NW.

The National Fish & Wildlife Foundation moved to 62,000 sf at 1625 Eye St NW, the nature foundation grew its footprint in the District by over 33,000 sf but consolidated several offices nationally in the move. Healthcare company Blue Cross Blue Shield moved within the East End going from 84,000 sf at 1310 G St NW to 66,000 sf in the Victor Building.

Vacancy rates increased 30 basis points (bps) from the previous quarter to 21.2% in Q1. Class A decreased 10 bps from Q4 2023 to 18.0% while Class B increased 120 bps to 25.4% and Class C rose 50 bps to 27.4%. Compared to the 20.0% vacancy at the beginning of 2023, vacancy rose 120 bps with Class A increasing 30 bps, Class B rising 250 bps and Class C jumping 290 bps. Within Class A space, the trophy component continues to outperform, ending the first quarter at 12.5%. 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 dwindle as flight to quality continues to drive leases to best-in-class assets.

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 \$54.92 psf in Q1 2024 as robust free rent and tenant improvement concession have bolstered rental rates. Tenant improvements (TIs) grew from an average of \$100 psf in 2019 to \$145 psf in by yearend 2022 while abatement packages increased from 1.2 months to 2 months per year of term for deals in core submarkets over 10,000 sf with five years or more of lease term. The average TI and free rent concession fell to \$135 and 1.7 months free per year of term, respectively in the first quarter. Concessions are expected to soften as landlords are more willing to trade lower concessions for lower rents as funding for many cash strapped owners remains elusive. This dynamic will likely continue make renewals an increasing portion of overall deal volume.

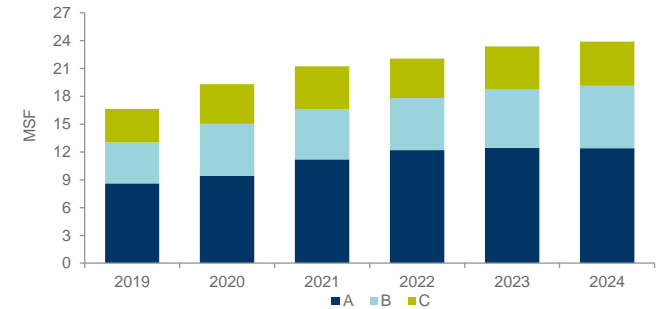
Development Pipeline

New trophy products under construction are now at 700,782 sf, the lowest point in over twenty years, compared to 2.2 million square feet (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.

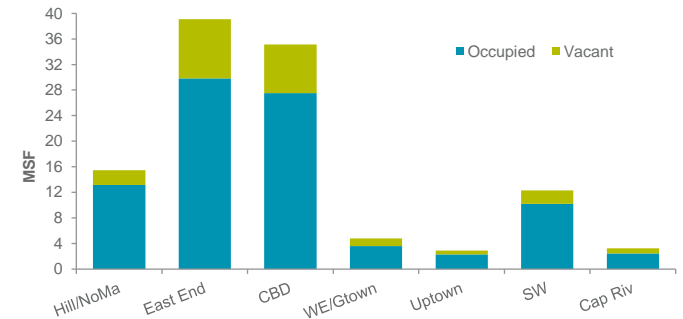
Outlook

In Q1, several large tenants announced they were vacating their Washington, D.C. offices. One of D.C.'s largest tech companies, CoStar, announced they are moving out of their 150,000-sf headquarters in the East End for an Arlington skyscraper that CoStar purchased at 1201 Wilson Blvd. WeWork is expected to give back several floors across multiple buildings in the next quarter or so.

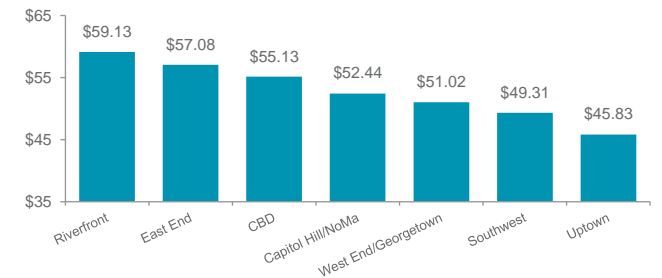
VACANT SPACE BY CLASS



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	15,430,807	38,673	2,242,269	14.8%	-10,200	-10,200	55,985	0	\$52.44	\$53.68
East End	39,103,107	430,989	8,825,508	23.7%	-330,536	-330,536	125,380	380,000	\$57.08	\$64.07
CBD	35,128,719	374,064	7,258,632	21.7%	230,340	230,340	187,982	320,782	\$55.13	\$63.36
West End/Georgetown	4,806,248	140,396	1,078,607	25.4%	-148,823	-148,823	9,882	0	\$51.02	\$56.98
Uptown	2,896,111	67,821	557,906	21.6%	7,786	7,786	1,400	0	\$45.83	\$49.08
Southwest	12,284,502	21,767	2,081,914	17.1%	-53,348	-53,348	44,257	0	\$49.31	\$51.80
Capitol Riverfront	3,225,932	117,435	682,184	24.8%	-42,113	-42,113	17,400	0	\$59.13	\$59.13
DOWNTOWN TOTALS	112,875,426	1,191,145	22,727,020	21.2%	-346,894	-346,894	442,286	700,782	\$54.92	\$61.08

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1301 K Street, NW	East End	The Washington Post	297,176	Renewal*
1101 4 th Street, SW	Southwest	DC Department of General Services	274,122	Renewal*
901 New York Avenue, NW	East End	Finnegan Henderson Farabow Garrett & Dunner	214,000	Renewal*
1700 New York Avenue, NW	CBD	Sullivan & Cromwell	62,558	Renewal*
1899 Pennsylvania Avenue, NW	CBD	The International Bank for Reconstruction and Development	56,796	Renewal*
600 14 th Street, NW	East End	IBM Corp.	51,990	Renewal*
1225 Eye Street, NW	East End	International Republican Institute	47,416	Expansion, Renewal*

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
701 & 801 Pennsylvania Avenue, NW	East End	Blackstone JV PIMCO / PRP Real Estate JV Morning Calm	707,476	\$163,360,256 / \$454.49
1099 New York Avenue, NW	East End	Credit Suisse / Quadrangle Development	180,878	\$95,000,000 / \$525.22
1101 Vermont Avenue, NW	East End	UBS Asset Management / Zumot Real Estate	175,663	\$15,822,125 / \$90.07

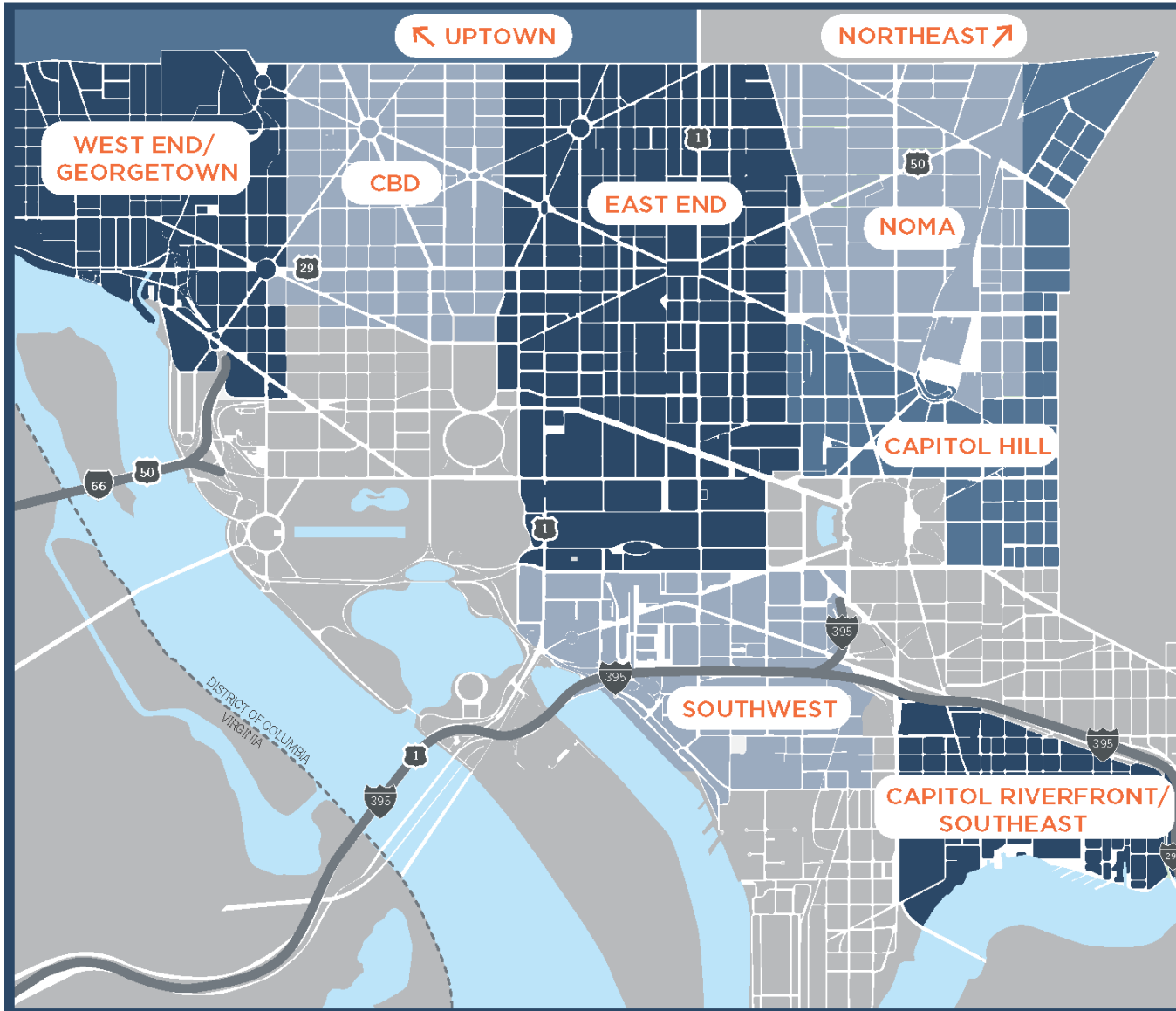
KEY UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
600 5 th Street, NW	East End	Crowell & Moring	380,000	Stonebridge JV Rockefeller Group
1700 M Street, NW	CBD	Gibson Dunn / UBS Financial	320,782	Skanska

Washington, D.C.

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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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