MARKETBEAT

Washington, D.C.

Office Q2 2024

	YoY Chg	12-Mo. Forecast
21.7% Vacancy Rate	▲	▲
-286K Net Absorption, SF	▼	▼
$55.01 Asking Rent, PSF	▼	—

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2024

	YoY Chg	12-Mo. Forecast
3.4 M D.C. Metro Employment	▲	▲
2.9% D.C. Metro Unemployment Rate	▲	▲
4.1% U.S. Unemployment Rate	▲	▲

Source: BLS

Economy

As recent inflation reports come in hotter than anticipated, rate cut expectations have been tempered with policymakers penciling in just one rate cut for 2024. While this is a major economic headwind, especially for commercial real estate, the overall economy remains stronger than expected. One major bright spot is the tight labor market. Washington D.C.'s unemployment rate has been under 3% since Q2 2022. According to the Bureau of Labor and Statistics, in the first half of 2024 the DC market has seen an increase in office-using employment after a slight dip at the end of 2023. This is exemplified by the professional business services industry adding nearly 10,000 jobs regionally from January to May 2024.

Capital markets have been more active in the first half of 2024 as compared to 2023. However, most sales have been short sales due to lender's unwillingness to extend loans and equity investors' reluctance to inject additional capital. Deals across D.C. have consistently ranged from $16 million to $30 million, the majority involving opportunistic and value-add assets. Most buyers are capitalizing on the attractive purchase prices to allocate the excess capital towards renovating and improving their newly acquired properties.

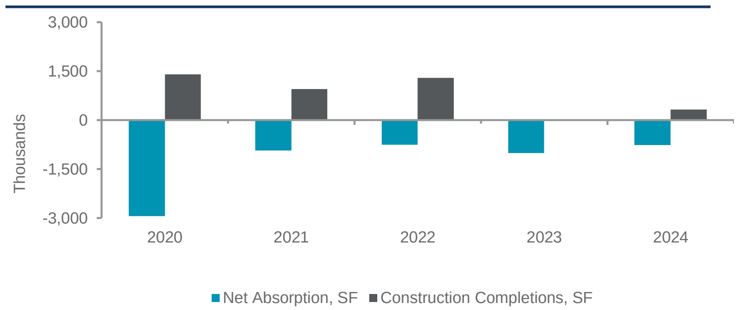
Market Segments

In Q2 2024, D.C. recorded 1.9 million square feet (msf) in gross leasing with renewals accounting for 63% of gross leasing at 1.2 msf inked while new deals accounted for 705,000 square feet (sf) signed. This brings gross leasing activity year-to-date (YTD) to 3.9 msf leased with 1.3 msf leased in new deals and 2.7 msf renewed. Midyear gross leasing is up 10% over the 3.5 msf leased in the first half of 2023. Renewals in the first half of the year increased 64% compared to the first half of 2023 and six out of the top ten deals were renewals. The East End and Southwest submarkets accounted for 41% and 30%, respectively, of all renewals signed in Q2. Expect the volume of renewals to outpace new leases for the foreseeable future as high-quality relocation options are increasingly scarce and pressure remains on cash-strapped landlords to fund the robust concessions needed to secure relocations.

The District recorded four deals over 100,000 sf this quarter, of which three were government agencies. The Federal Housing Finance Agency (FHFA) remained in its 377,000-sf office at 400 7th St, SW, DC Department of General Services (DCGS) signed an early renewal/restructure for 334,000 sf at 64 New York Ave, NW, the U.S. Commodity Futures Trading Commission (CFTC) shed 94,000 sf and inked a 147,000-sf new lease at 355 E St, SW, and Washington Design Center remained in 115,000 sf at 1099 14th St, NW.

Compared to last quarter, new leasing activity in Q2 increased 23% to 705,000 sf. Core submarkets made up 69%, or 492,000 sf, the majority of which came from the CBD inking 325,000 sf in new leasing. In Q2, there were 19 new deals signed over 10,000 sf for a total of 510,000 sf. In the CBD, law firm Cozen O'Connor sublet 65,576 sf from Buckley Sandler at 2001 M St, NW and will move within the submarket.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT

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Ruggeri Parks Weinberg sublet 16,856 sf at 1875 K St, NW, taking the former Stroock & Lavan space. In the East End, FDA law firm Hyman, Phelps & McNamara signed a 19,114-sf lease at 1101 K St, NW, which is a contraction of 10,000 sf from their current space at 700 13th St, NW.

Nearly 1 msf was leased by the federal and local government in Q2- federal government leases accounted for 652,000 sf signed while DC government recorded 334,000 sf. Along with the previously mentioned large deals, other agencies who inked deals included the FBI renewing 49,802 sf and 45,034 sf at 395 and 375 E St SW, respectively, and the Department of Treasury taking a 24,712 sf at 875 15th St, NW and expanding by 8,107 sf at 717 14th St, NW. In the next 18 months, over 3 msf of federal government leases are set to expire, putting a significant amount of space up for renewal and some on the chopping block as agencies continue to consolidate and shed space. Slow return to office policies, shorter lease terms and another round of federal downsizing are trends to look out for in the midterm for federal leasing.

Supply and Demand

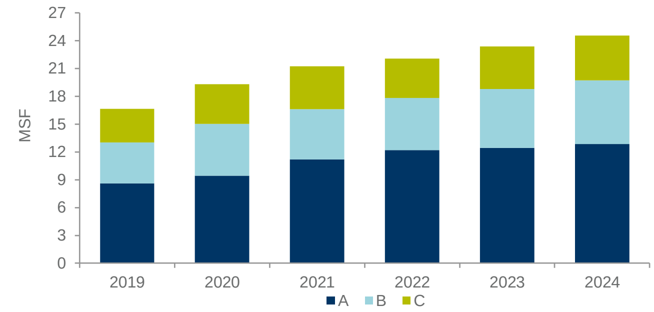
Washington, D.C. recorded just 285,000 sf of negative absorption in Q2, bringing YTD absorption to negative 764,000 sf. Class B product made up 59% of YTD absorption with negative 451,000 sf while Class A buildings recorded negative 136,000 sf of absorption YTD. East End drove absorption negative this quarter primarily due to the Department of Justice moving out of 250,000 sf at 810 7th St, NW in the East End and into 162,000 sf at 999 N Capitol St, NE in Capitol Hill. In the CBD, WeWork closures contributed to negative absorption after the coworking company gave back 40,000 sf on two floors at 1333 New Hampshire Ave, NW along with two floors totaling 37,000 sf at 1701 Rhode Island Ave, NW.

For the third consecutive quarter, the East End has surpassed the CBD with a larger amount of negative absorption recorded. In Q2, the East End yielded negative 325,000 sf while the CBD registered negative 82,271 sf of absorption. Since the trend started in Q4 2023, the CBD has totaled 205,000 sf of positive absorption while the East End has a combined 672,000 sf of negative absorption. This underscores the trend of flight to quality as the CBD offers tenants numerous higher quality options in neighborhoods with an easier commute and less crime than the East End.

Vacancy rates increased 50 basis points (bps) from the previous quarter to 21.7% in Q2. Class A increased 60 bps from Q1 2024 to 18.6%, Class B jumped 40 bps to 25.8%, and Class C rose 50 bps to 27.9%. Compared to the 20.3% vacancy in Q2 2023, vacancy rose 140 bps with Class A increasing 50 bps, Class B rising 210 bps and Class C jumping 240 bps. Within Class A space, the trophy component continues to outperform, ending the first quarter at 13.0%. In the second half of the 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 while new supply remains limited.

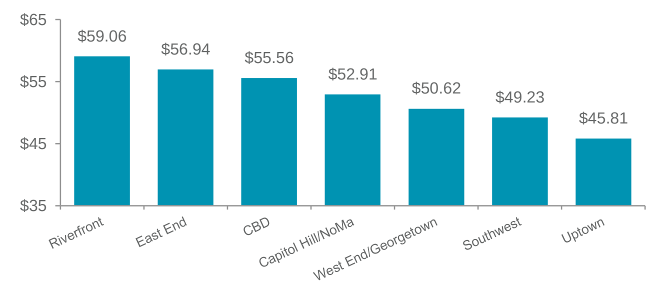
Since the pandemic, rents in Washington, D.C. have been relatively flat going from $55.59 per square foot (psf) at the end of 2019 to $55.01 psf in Q2 2024 as robust free rent and tenant improvement concession have bolstered rental rates. Tenant improvements (TIs) grew from an average of $100 psf in 2019 to $150 psf in Q2 2024 while abatement packages increased from 1.2 months to 1.9 months per year of term for deals in core submarkets over 10,000 sf with five years or more of lease term. Overall average 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, however large leases that solve occupancy issues will still likely meet or exceed $300 per square foot in incentives.

VACANT SPACE BY CLASS



SUBMARKET COMPARISON

SUBMARKET ASKING RENT



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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	36,673	2,192,666	14.5%	95,264	39,403	87,917	0	$52.91	$54.26
East End	39,127,107	306,136	9,212,861	24.3%	-325,059	-666,712	363,375	380,000	$56.94	$64.19
CBD	35,449,501	343,224	7,686,240	22.7%	-82,271	148,069	543,350	0	$55.56	$63.50
West End/Georgetown	4,806,248	149,998	1,104,568	26.1%	17,823	-184,728	50,644	0	$50.62	$56.87
Uptown	2,896,111	67,821	561,351	21.7%	-3,445	4,341	4,561	0	$45.81	$49.06
Southwest	12,284,502	21,767	2,094,481	17.2%	8,597	-65,915	195,172	0	$49.23	$51.80
Capitol Riverfront	3,225,932	117,435	678,931	24.7%	3,253	-38,860	31,277	0	$59.06	$59.06
DOWNTOWN TOTALS	**113,220,208**	**1,045,054**	**23,531,098**	**21.7%**	**-285,838**	**-764,402**	**1,276,296**	**380,000**	**$55.01**	**$61.14**

Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
400 7th Street, SW	Southwest	GSA – Federal Housing Finance Agency	377,092	Renewal*
64 New York Avenue, NW	Capitol Hill/NoMa	DC Department of General Services	333,658	Renewal*
355 E Street, SW	Southwest	U.S. Commodity Futures Trading Commission	147,050	New Lease
1099 14th Street, NW	East End	Washington Design Center	115,475	Renewal*
395 E Street, NW & 375 E Street, NW	Southwest	GSA- FBI	94,838	Renewal*
1201 Eye Street, NW	East End	International Food Policy Research Institute	71,543	Renewal*
2001 M Street, NW	CBD	Cozen O'Connor	65,576	Sublease
1101 New York Avenue, NW	East End	Bloomberg	50,000	Renewal*
875 15th Street, NW	East End	GSA – Department of Treasury	24,712	New Lease
1101 K Street, NW	East End	Hyman, Phelps & McNamara	19,114	New Lease

Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / $ PSF
616 H Street, NW	East End	Oxford Property Group JV AFL-CIO Building Investment Trust / MRP Realty JV Global Fund Investments	228,534	$16,662,595 / $72.91
21 Dupont Circle, NW	CBD	EFO Capital Management / Amalgamated Transit Union	52,000	$13,835,000 / $266.06

KEY UNDER CONSTRUCTION

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
600 5th Street, NW	East End	Crowell & Moring	380,000	Stonebridge JV Rockefeller Group

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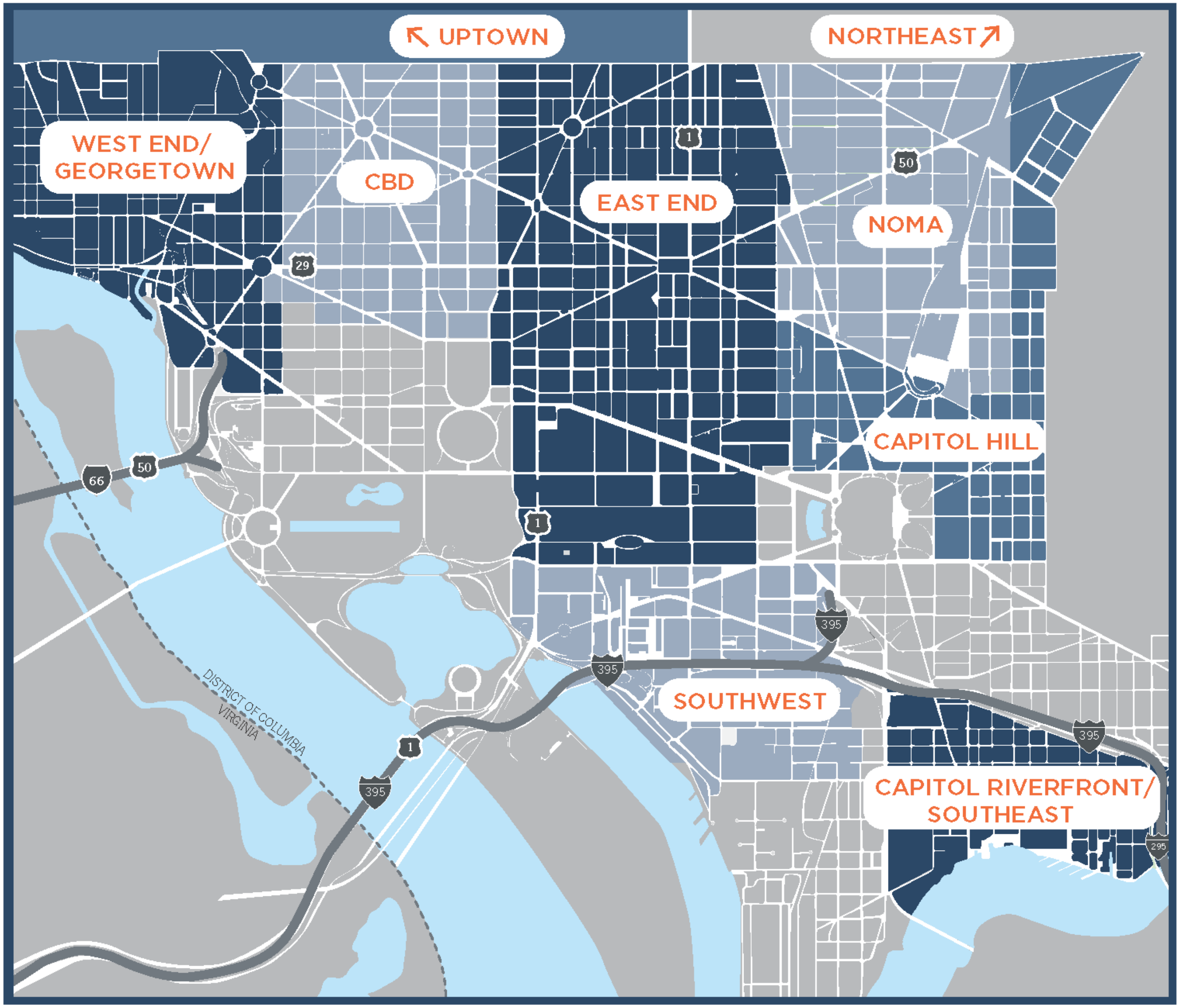
OFFICE SUBMARKETS



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