

## MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
<b>21.9%</b> Vacancy Rate	▲	▲
<b>-907M</b> YTD Net Absorption, SF	▬	▼
<b>\$54.62</b> Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▼	▬

## ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
<b>3.4M</b> Washington, DC Metro Employment	▲	▲
<b>2.9%</b> Washington, DC Metro Unemployment Rate	▲	▲
<b>4.2%</b> Country Unemployment Rate	▲	▼

*Source: BLS*

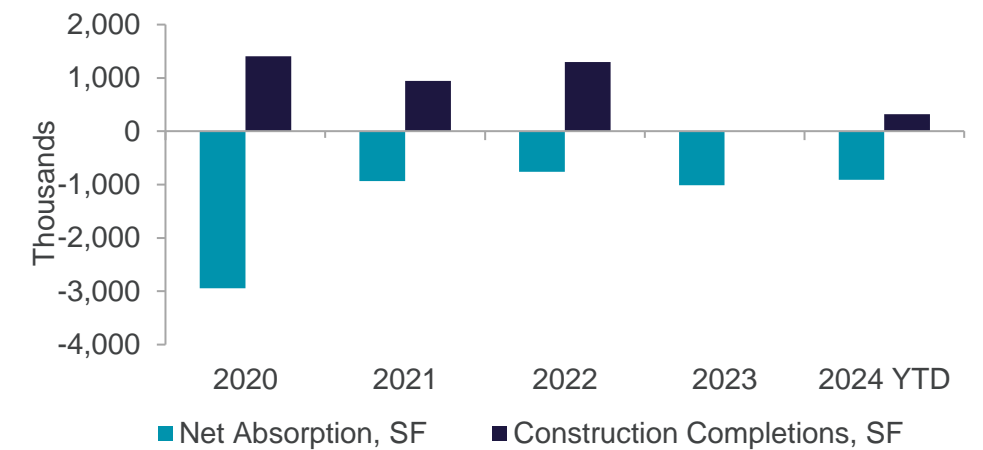
## MARKET SEGMENTS

In the third quarter, Washington, DC recorded 1.8 million square feet (msf) in gross leasing, bringing year-to-date (YTD) leasing to 6.1 msf. New leasing yielded 1.2 msf, bringing YTD new deals to 2.7 msf while renewal deals registered 550,000 sf in Q3, bringing YTD activity to 3.3 msf. New leasing outpaced renewal activity for the first time in five consecutive quarters. New leases signed in Q3 accounted for 60% of all leases signed in the District and 89% of new leases occurred in the core submarkets of CBD and East End.

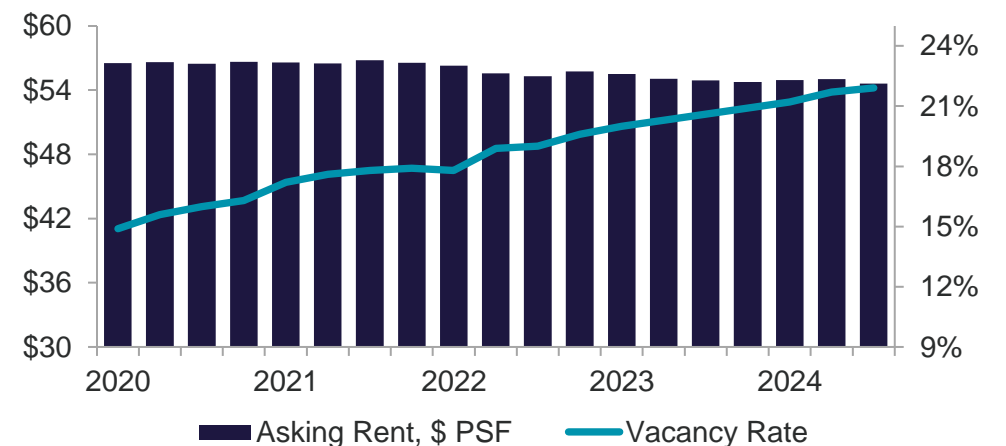
In Q3, there were three 100,000 sf+ deals signed by the federal government or quasi-government organizations. The U.S. Agency for Global Media signed a new deal for 350,000 sf at 1875 Pennsylvania Ave NW. The federal agency that oversees Voice of America will move from their longtime 698,000 sf headquarters in Southwest to a 350,000-sf new HQ in the CBD. The legal sector recorded 10 deals in Q3 totaling 105,000 sf. Brown Rudnick signed for 27,513 sf at 1900 N St NW and will vacate 35,000 sf in the East End in early 2025. Also in the CBD, Torridon Law sublet 21,931 sf at 801 17th St NW which is the first office presence the newly formed law firm will have in DC. Florida-based telecom company Skye Telecom will open a new office in Capitol Hill after signing a 14,000-sf deal at 300 New Jersey Ave NW.

Despite a few new users to the city, Q3 leasing activity had several notable contractions. Eight out of the top ten deals in Q3 were contractions with the average tenant downsizing by 81,672 sf or 36% of the original space. Contractions were driven by the Federal Government as government-related tenants contracted by a combined 894,000 sf from their previous DC footprints. Court Services & Offender Supervision Agency (CSOSA) consolidated several offices into a 198,561-sf office at 501 3rd St NW. The largest contraction on a percentage basis by the federal government was the Department of Treasury which reduced its footprint by 65% when it consolidated two locations into 68,700 sf at 1575 Eye St NW.

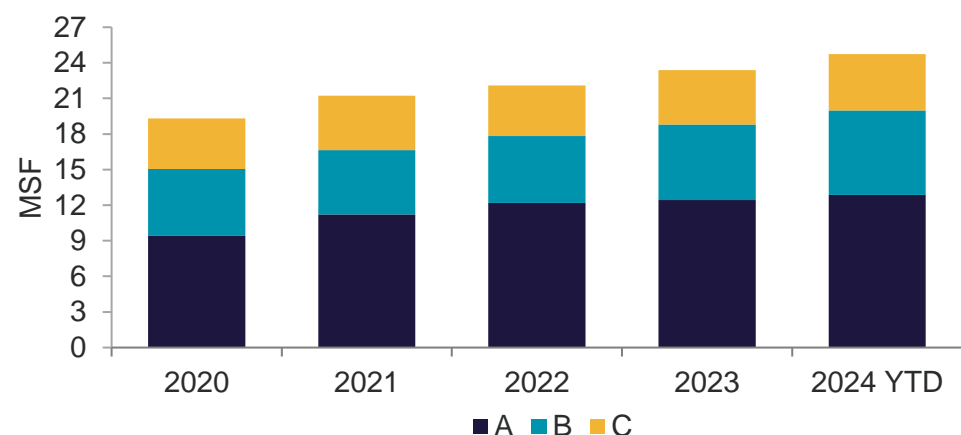
## SPACE DEMAND / DELIVERIES



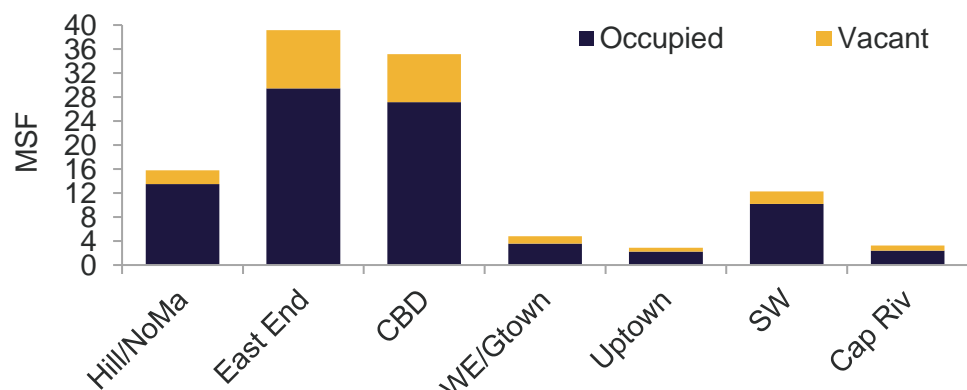
## OVERALL VACANCY & ASKING RENT



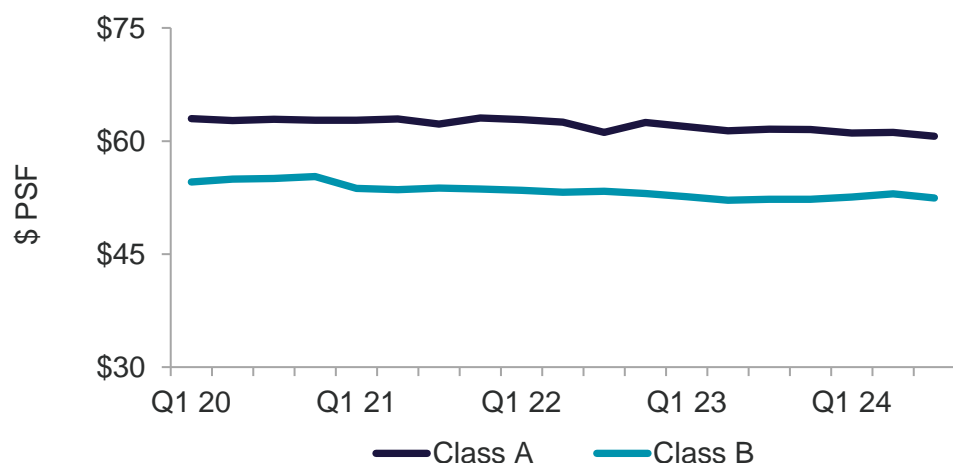
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



ASKING RENT COMPARISON



The American Association for Justice is giving back 14,000 sf in its 36,796-sf renewal at 777 6th St NW and The Chicago School will downsize by 6% after consolidating into 28,997 sf at 1101 K St NW.

SUPPLY & DEMAND

Washington, DC recorded just over 136,000 sf of negative absorption in Q3, bringing YTD absorption to negative 907,000 sf. Class B and C product comprised 90% of YTD absorption with negative 562,000 sf and 255,000 sf, respectively, while Class A buildings recorded negative 90,000 sf YTD. For the past four quarters, East End has been the primary driver of negative absorption in DC. Thus far in 2024, East End has recorded negative 786,000 sf while CBD yielded 127,000 sf of absorption. East End recorded negative 76,000 sf in Q3 after Merrill Lynch left 73,500 sf at 1152 15th St NW to consolidate at 1800 K St NW. The Institute of International Finance also shrank in the East End, shedding 33,000 sf after giving back two floors and restacking on two other floors. The largest move of the quarter occurred within the CBD when Gibson Dunn left 230,000 sf at 1050 Connecticut Ave NW for 164,000 sf at 1700 M St NW. Net positive absorption in the CBD also came from the Whitehouse Historical Association opening a 32,000-sf immersive experience space at 1700 Pennsylvania Ave NW.

Vacancy rates increased 20 basis points (bps) from the previous quarter to 21.9% in Q3. Class A vacancy was flat from Q2 2024 at 18.6% and Class B rose 30 bps to 26.8%. Compared to the 20.6% vacancy in Q3 2023, vacancy rose 130 bps with Class A increasing 60 bps and Class B rising 240 bps. Within Class A space, the trophy component continues to outperform, ending the third quarter at 12.8%.

PRICING

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 \$54.62 psf in Q3 2024 as robust free rent and tenant improvement concession have bolstered rental rates. Rents have decreased \$0.39 from last quarter and decreased \$0.33 from \$54.95 in Q3 2023. Rents fell the most in Capitol Riverfront falling \$3.51 while the CBD was the only submarket where rents rose, increasing \$0.02 over the last 12 months. Tenant improvements (TIs) grew from an average of \$100 psf in 2019 to \$155 psf in Q3 2024 while abatement packages increased from 1.2 months to 1.6 months per year of term for deals in core submarkets over 10,000 sf with five years or more of lease term.

OUTLOOK

- Expect future 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.
- 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.
- Capital markets have been more active in 2024 as compared to 2023. There have been 21 office buildings sold for over \$881 million combined. This is up 74.5% compared to the 14 buildings sold for \$505 million over the same period in 2023.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET 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	2,237,990	14.8%	15,693	55,096	130,863	0	\$52.23	\$54.30
East End	39,127,107	320,628	9,343,428	24.7%	-75,508	-785,522	1,009,138	385,000	\$56.52	\$64.96
CBD	35,214,857	156,786	7,828,193	22.7%	-58,074	126,821	1,251,997	0	\$55.41	\$64.81
West End / Georgetown	4,806,248	152,562	1,104,199	26.1%	-2,195	-186,923	68,139	0	\$50.01	\$56.48
Uptown	2,896,111	74,690	563,357	22.0%	-8,875	-4,534	16,223	0	\$45.19	\$47.31
Southwest	12,284,502	20,183	2,066,819	17.0%	29,246	-36,669	215,749	0	\$49.20	\$51.72
Capitol Riverfront	3,225,932	117,435	715,606	25.8%	-36,675	-75,535	57,762	0	\$57.64	\$57.64
<b>DOWNTOWN TOTALS</b>	<b>112,985,564</b>	<b>880,957</b>	<b>23,859,592</b>	<b>21.9%</b>	<b>-136,388</b>	<b>-907,266</b>	<b>2,749,871</b>	<b>385,000</b>	<b>\$54.62</b>	<b>\$60.92</b>

\*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1875 Pennsylvania Avenue NW	CBD	Voice of America (US Agency for Global Media)	350,000	New Lease
1100 15 <sup>th</sup> Street, NW	CBD	Fannie Mae	340,000	Renewal*
501 3 <sup>rd</sup> Street, NW	East End	CSOSA	198,561	New Lease
1575 Eye Street, NW	CBD	GSA- Department of Treasury	68,700	New Lease
601 13 <sup>th</sup> Street, NW	East End	BGR Group	42,000	Renewal*, Expansion
777 6 <sup>th</sup> Street, NW	East End	American Association for Justice	36,796	Renewal*
1101 K Street, NW	East End	The Chicago School	28,897	New Lease
1900 N Street, NW	CBD	Brown Rudnick	27,513	New Lease
1101 15 <sup>th</sup> Street, NW	East End	Fragomen, Del Rey, Bernsen & Loewy	26,141	Renewal*
801 17 <sup>th</sup> Street, NW	CBD	Torridon Law	21,931	Sublease

\*Renewals not included in leasing statistics

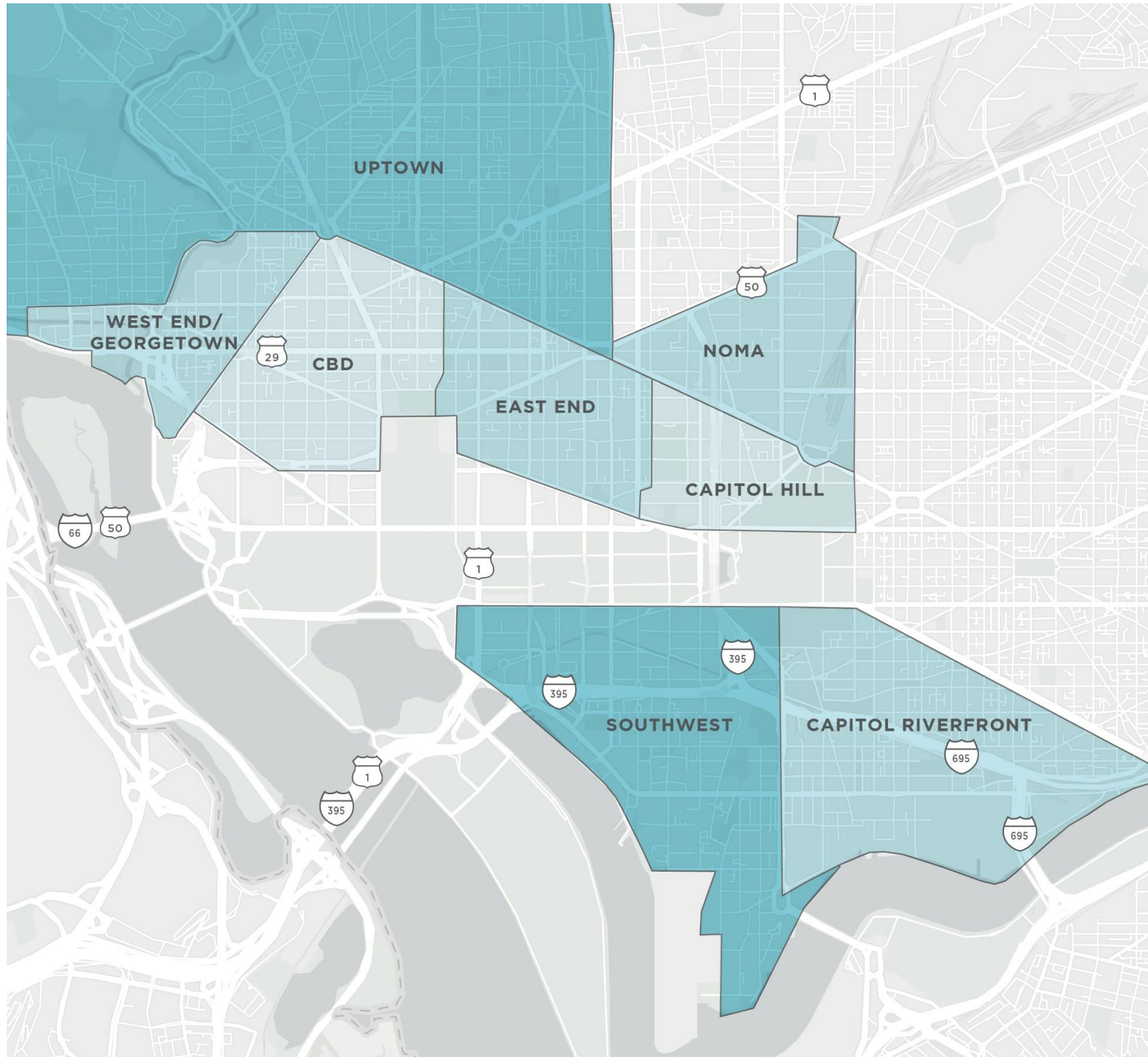
KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
2000 K Street, NW	CBD	Tishman Speyer / Spear Street Capital	233,292	\$140,200,100 / \$600.96
701 8 <sup>th</sup> Street, NW	East End	Voya Investment / Douglas Development	134,448	\$34,250,000 / \$254.75
1201 Connecticut Avenue, NW	CBD	BrightSpire Capital / Duball LLC	169,549	\$21,500,000 / \$126.81
1200 18 <sup>th</sup> Street, NW	CBD	Paragon Real Estate / The Davis Companies	207,789	\$18,500,000 / \$89.03

KEY CONSTRUCTION COMPLETION YTD 2024

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
1700 M Street NW	CBD	Gibson Dunn	320,782	Skanska

OFFICE SUBMARKETS



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