

**MARKET SEGMENTS**

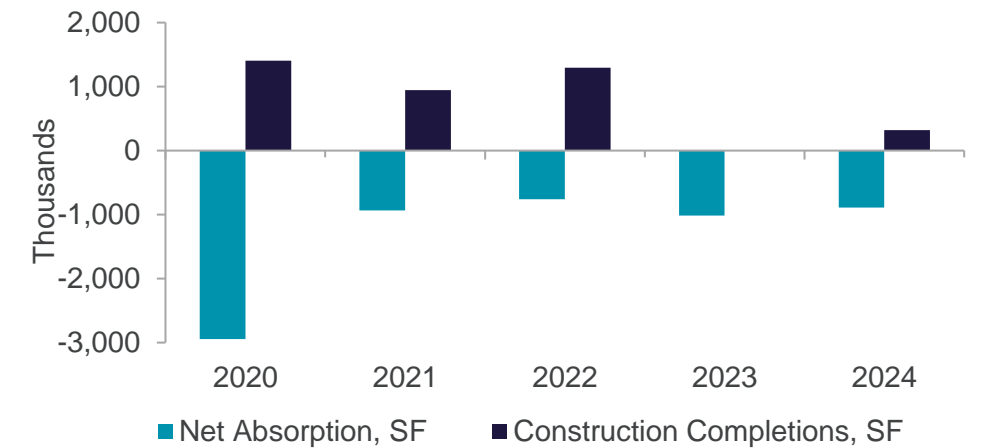
In Q4 2024, Washington, DC recorded nearly 1.8 million square feet (msf) of gross leasing activity, bringing the total for the year to 8.1 msf—an increase of 10% from the 7.3 msf leased in 2023. While leasing activity has improved this year, it remains 24% below the pre-pandemic level of 10.6 msf leased in 2019. New leasing continued to outpace renewals for the second consecutive quarter, with 984,720 square feet (sf) of new leases signed compared to 802,830 sf of renewals.

Class A totaled 741,000 sf while Class B and C recorded 220,000 sf and 23,000 sf, respectively, of new leasing activity in Q4. This brings year-to-date (YTD) new leasing to 3.9 msf- Class A recorded 2.7 msf while Class B yielded 734,000 sf and Class C posted 438,000 sf. Renewals in Class A buildings registered 672,000 sf in Q4 while Class B netted 118,000 sf. This brings YTD renewal activity to 3.3 msf in Class A, 806,000 sf in Class B and 161,000 sf in Class C buildings for a total of 4.2 msf YTD.

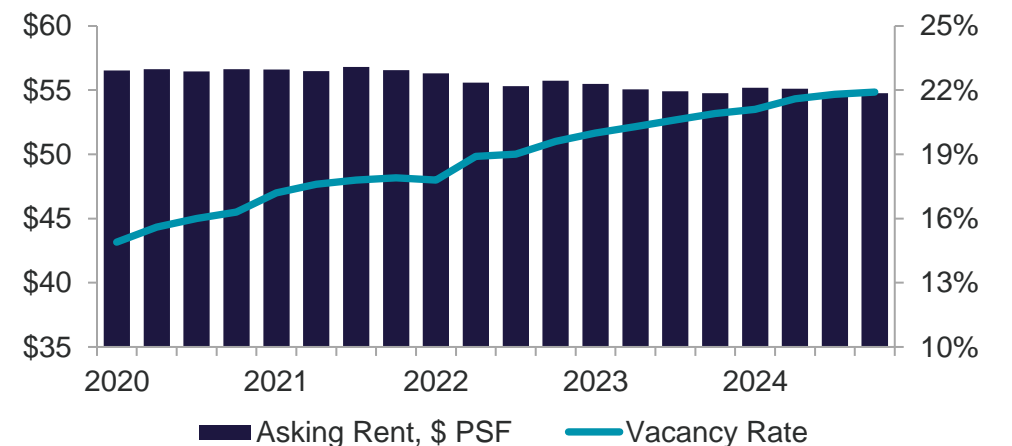
The core submarkets of the East End and CBD accounted for 796,690 sf of new leasing activity in Q4, representing 81% of all new deals signed. Law firms and the federal government drove leasing activity in Q4 with a combined 995,000 sf of gross leasing as well accounting for 15 of the top 20 largest transactions. Notably, Holland & Knight expanded by more than 20,000 sf as part of their 145,000-sf renewal at 800 17th St NW. In the largest new deal of the quarter, ArentFox secured 120,000 sf of Fannie Mae’s former space at Midtown Center. Notably, after the quarter closed, BXP purchased 725 12th St NW for \$34 million with plans to demolish the existing property for a new 320,000 sf tower, of which McDermott Will & Emery has preleased 150,000 sf.

The federal government signed five renewals and two new deals in Q4. While renewing, the federal government reduced its footprint in three buildings. The most significant downsizing came from the National Labor Relations Board, which gave back one floor—equivalent to 51,000 sf—at 1015 Half St SE. The Millennium Challenge Corporation and the Federal Reserve reduced their spaces by 14,000 sf at 1099 14th St NW and by 5,500 sf at 1825 Eye St NW, respectively. Capitol Riverfront saw its largest new lease of the year when the Department of the Navy inked a 33,000-sf office at 1201 M St SE. Looking ahead to 2025, we anticipate heightened activity from the federal government as the new administration aims to streamline office space usage and eliminate excess capacity.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



**MARKET FUNDAMENTALS**

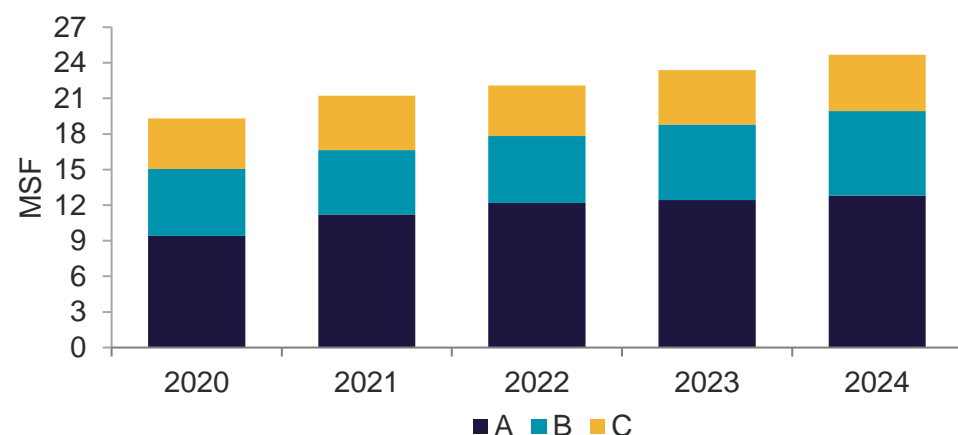
	YOY Chg	Outlook
<b>21.9%</b> Vacancy Rate	▲	▲
<b>-888K</b> YTD Net Absorption, SF	▲	▲
<b>\$54.76</b> Asking Rent, PSF <i>(Overall, All Property Classes)</i>	▬	▬

**ECONOMIC INDICATORS**

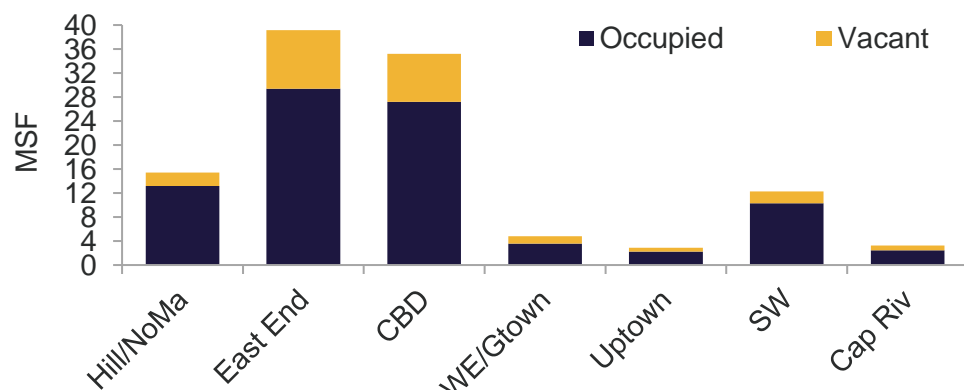
	YOY Chg	Outlook
<b>776.5 K</b> Washington, DC Employment	▲	▲
<b>5.7%</b> Washington, DC Unemployment Rate	▲	▼
<b>4.2%</b> Country Unemployment Rate	▲	▲

*Source: BLS*

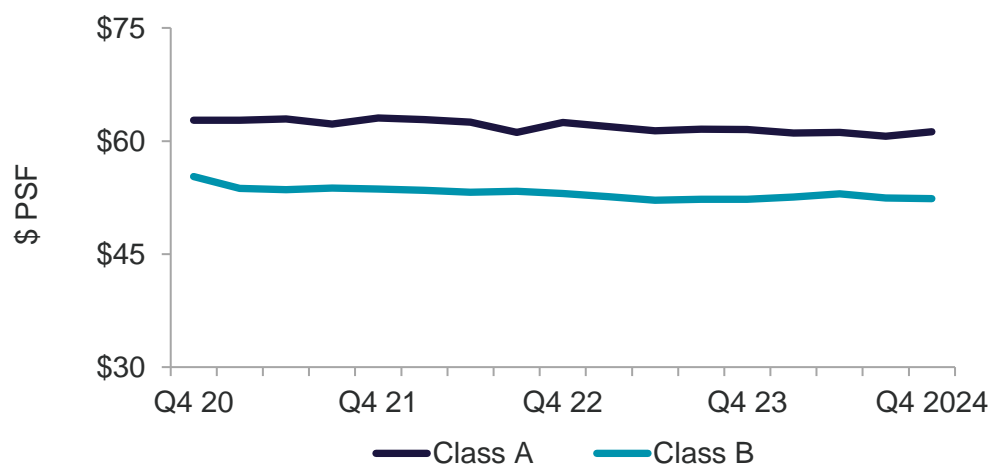
VACANT SPACE BY CLASS



SUBMARKET COMPARISON



ASKING RENT COMPARISON



SUPPLY AND DEMAND

Washington, DC recorded just over 45,000 sf of negative absorption in Q4, bringing the total for 2024 to negative 888,263 sf. Class B and C properties accounted for most of the negative absorption YTD, with 571,000 sf and 269,000 sf, respectively, while Class A buildings saw comparatively modest negative absorption of 47,434 sf YTD. The East End led negative absorption in 2024, representing 87% of the total at negative 769,549 sf YTD. In contrast, the CBD performed significantly better, recording 88,162 sf of positive absorption for the year. Despite the broader trend, Q4’s largest move occurred in the East End, where the Atlantic Council moved into nearly 80,000 sf at 1400 L St NW, vacating 42,500 sf at 1030 15th St NW. In the CBD, law firm McKool Smith downsized from 21,000 sf at 1999 K St NW for just over 13,000 sf at 1000 Connecticut Ave NW.

Vacancy rates remained steady in Q4 at 21.9%, up 10 basis points (bps) from Q3 and up 110 basis points (bps) from the end of 2023. Year-over-year, Class A vacancy rates rose 50 bps to 18.5%, while Class B and Class C vacancies increased by 210 bps and 200 bps, reaching 26.8% and 27.8%, respectively. Within Class A spaces, trophy properties continued to outperform, closing 2024 with a vacancy rate of just 11.7%. While West End/Georgetown has the highest vacancy rate at 26.2%, several buildings within the submarket are slated for residential conversion and are currently pushing the vacancy up. As these buildings are pulled out of inventory, expect vacancy to drop with few options going forward.

PRICING

Since the pandemic, rents in Washington, D.C, have remained relatively stable, declining slightly from \$55.59 per square foot (psf) at the end of 2019 to \$54.76 psf at the close of 2024. This resiliency has been supported by robust concessions. Over the past quarter, rents rose by \$0.05 and dropped \$0.30 from \$55.06 recorded in Q4 2023. Capitol Riverfront experienced the steepest decline, with rents falling by \$2.86, while the CBD and East End were the only submarkets to see rent increases, rising by \$0.58 and \$0.24, respectively, over the last 12 months. Looking forward, the significant number of buildings getting basis resets due to sales, short sales and reworked debt positions have the potential to bring lower face rents.

Tenant improvement (TI) allowances have grown significantly, rising from an average of \$100 psf in 2019 to \$157.50 psf at the end of the year. Abatement packages have also increased, climbing from 1.2 months to 1.7 months per year of term for deals over 10,000 sf with lease terms of five years or more in core submarkets. Regarding the McDermott Will & Emery deal, it is possible that with the increasing lack of high-quality, large available blocks of space that the developer was able to push back on concessions for this market defining deal.

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 finished 2024 with nearly \$1.2 billion in buildings transacted compared to \$900 million worth of buildings sold in 2023. Capital markets will continue to see lender-assisted sales, but more buyers will enter the market as borrowing costs decline and values will rise as more companies are requiring employees to return to the office.

MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	DIRECT VACANT (SF)	SUBLET 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	2,199,189	46,248	14.6%	31,226	86,322	185,021	0	\$51.99	\$54.11
East End	39,127,107	9,361,433	354,149	24.8%	-38,245	-769,549	1,548,147	385,000	\$56.63	\$63.89
CBD	35,180,716	7,846,940	155,539	22.7%	-46,119	88,162	1,597,904	0	\$55.77	\$65.60
West End / Georgetown	4,806,248	1,089,720	168,096	26.2%	-7,494	-187,978	109,649	0	\$49.37	\$56.61
Uptown	2,896,111	580,926	76,988	22.7%	-19,867	-24,401	22,870	0	\$44.97	\$46.95
Southwest	12,284,502	1,994,220	25,183	16.4%	-4,878	-45,540	292,380	0	\$49.14	\$51.67
Capitol Riverfront	3,225,932	675,350	117,435	24.6%	40,256	-35,279	113,526	0	\$58.08	\$58.08
<b>DOWNTOWN TOTALS</b>	<b>112,951,423</b>	<b>23,747,778</b>	<b>943,638</b>	<b>21.9%</b>	<b>-45,121</b>	<b>-888,263</b>	<b>3,869,497</b>	<b>385,000</b>	<b>\$54.76</b>	<b>\$61.23</b>

\*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
800 17 <sup>th</sup> Street NW	CBD	Holland & Knight	145,750	Renewal*
1100 15 <sup>th</sup> Street NW	CBD	ArentFox Schiff	120,000	New Lease
400 7 <sup>th</sup> Street SW	Southwest	GSA- National Endowment for Humanities (NEH)/National Endowment for the Arts (NEA)	116,130	Renewal*
1015 Half Street SE	Capitol Riverfront	GSA- National Labor Relations Board	92,199	Renewal*
1099 14 <sup>th</sup> Street NW	East End	Millennium Challenge Corporation	83,105	Renewal*
1825 Eye Street NW	CBD	The Board of Governors of the Federal Reserve System	76,689	Renewal*
1001 Pennsylvania Avenue NW	East End	Troutman Pepper Hamilton Sanders	70,611	New Lease
1101 New York Avenue NW	East End	Milbank	64,664	New Lease
555 13 <sup>th</sup> Street NW	East End	Quinn Emanuel Urquhart & Sullivan	57,269	Sublease
655 15 <sup>th</sup> Street NW	East End	DC Department of General Services	53,658	Renewal*

\*Renewals not included in leasing statistics

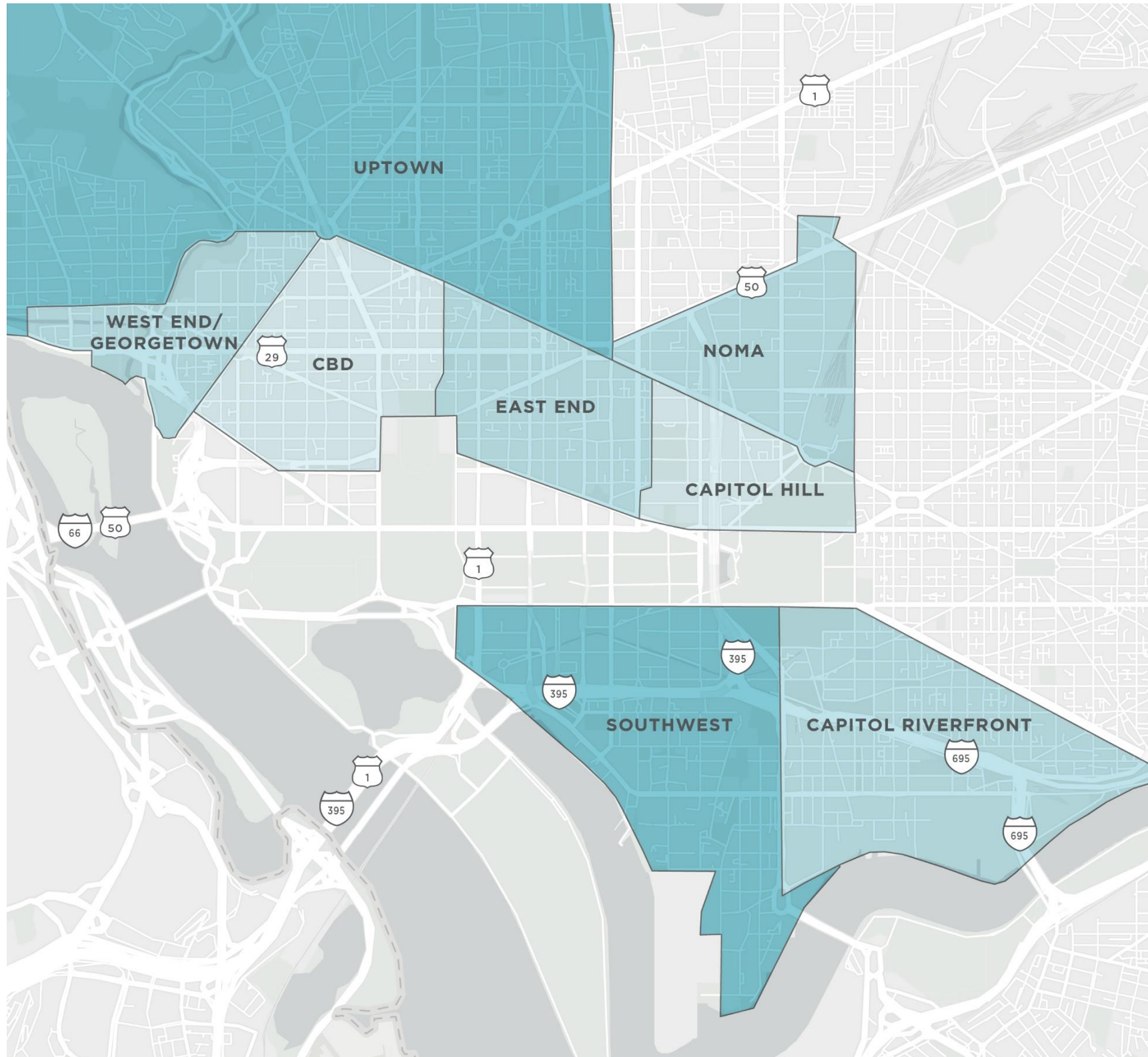
KEY SALES TRANSACTIONS Q4 2024

PROPERTY	SUBMARKET	SELLER/BUYER	SF	PRICE / \$ PSF
1300 I St NW, 800 17 <sup>th</sup> St NW, 25 Massachusetts Ave NW, 1101 Pennsylvania Ave NW	East End	Nuveen / Norges Bank	1,606,307	\$446,797,414
2101 L St NW	CBD	JBG Smith / BG Ventures JV ELV Associates	370,000	\$110,100,907 / \$297.57
2001 Pennsylvania Ave NW	CBD	Carr / The George Washington University	161,000	\$35,000,000 / \$217.39
725 12 <sup>th</sup> St NW	East End	Hines JV Swift Creek Partners / BXP	331,540	\$34,000,000 / \$102.55

KEY CONSTRUCTION COMPLETIONS 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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