2Q24

District of Columbia Office Market Overview

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. May's 2.8% unemployment rate remains significantly lower than the region's ten-year historical average of 3.9%. Furthermore, the Washington DC metro's unemployment rate is 120 basis points lower than the national rate.
- Year-over-year, job gains were most pronounced in Education & Health, posting a gain of 3.1%. Furthermore, the Government sector also experienced notable job gains, increasing 2.1% year-over-year. The office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced job losses over the past year, however, helping to account for continued limited demand for office space.
- While some office-using sectors experienced a decline in employment over the past year, jobs in the office-using sectors remain at a level that is 2.5% higher than four years ago—just prior to the pandemic—and 6.7% higher than the pandemic-induced employment trough in May 2020.

Leasing Market Fundamentals

- The District of Columbia experienced 210,488 SF of positive net absorption during Q2 2024. The vacancy rate remained steady quarter-over-quarter at 20.3% and increased 140 basis points year-over-year.
- The District of Columbia's development pipeline remains historically low, with only one delivery during Q2 2024 being 17XM. The sole property under construction in the district is 600 Fifth, a 400,000-square-foot office building in the East End.
- Overall, asking rents increased slightly midway through 2024. Class A rents were the cause of this, as they increased 0.4% quarter-over-quarter, while Class B rents increased 0.1% quarter-over-quarter. The longer-term trend, however, shows that both Class A and Class B rents have remained relatively flat since 2019.

Major Transactions

- Office investment sales continue to lag in pricing per square foot as well as total transaction volume. However, owner-user sales and conversion opportunities are propping up a lot of demand in Washington, D.C. capital markets.
- The two sales of the quarter were 1750 H Street, NW for $17.6 million or $158 PSF and 21 Dupont Circle, NW for $13.8 million or $266 PSF. 1750 H Street, NW has a total of 111,510 SF and was purchased by State Farm Life Insurance from Office Props Income Trust. This sale resolved a troubled situation as the property was scheduled for auction in May 2024. 1750 H Street, NW was previously sold in October 2017 for $65 million in a portfolio transaction. 21 Dupont Circle, NW has a total of 52,000 SF and was purchased by Amalgamated Transit Union as an owner-user from EFO Capital Management.

Outlook

- A strong and resilient labor market, coupled with persistent inflationary concerns, is contributing to an uncertain macroeconomic outlook in the near-term.
- 2024 year-to-date has seen a stark uptick in institutional investors coming back to the DC office market, while unconventional investors have begun to show interest as well. This coincides with an increase in transaction volume of distressed assets selling at a fraction of their last sale price. This presents the new owners the opportunity to acquire poor performing assets significantly lower than replacement cost with the intention of renovation/lease up or conversion.

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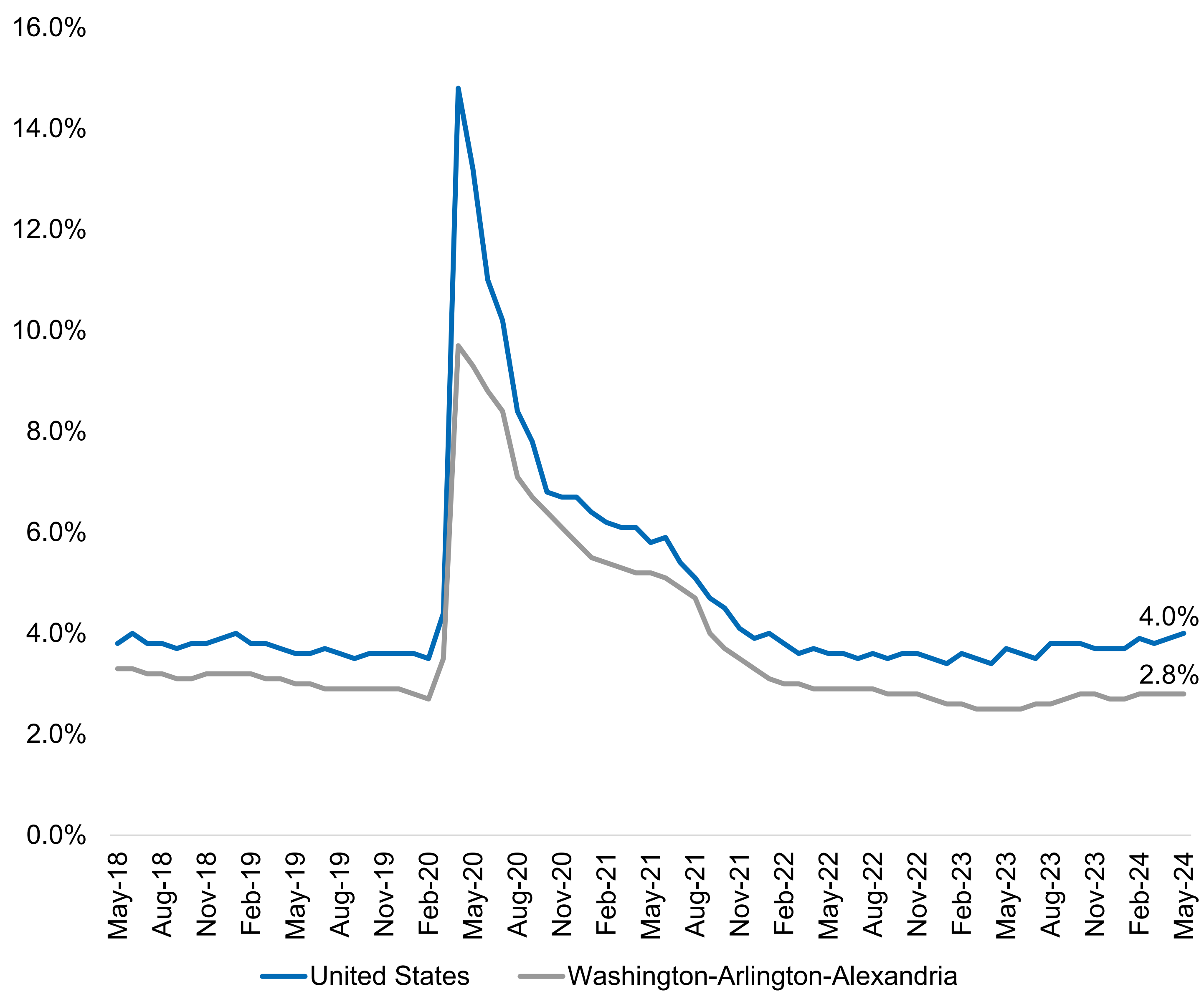
Economy

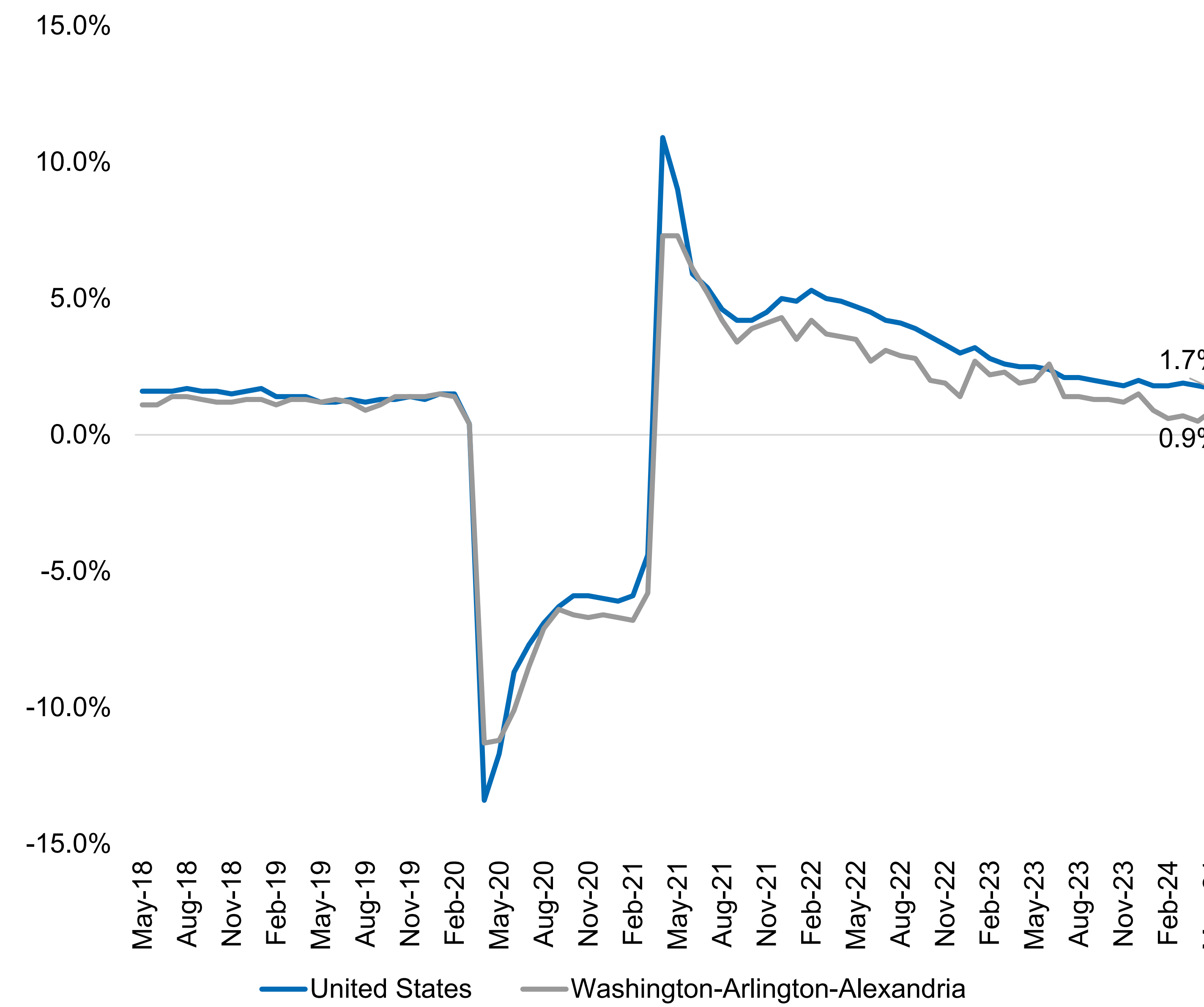
Metro Employment Job Growth Remains Positive Despite Slowing

The region's labor market is very tight, with unemployment 120 basis points below the national average. Job growth has begun to slow, but nonetheless remains positive.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

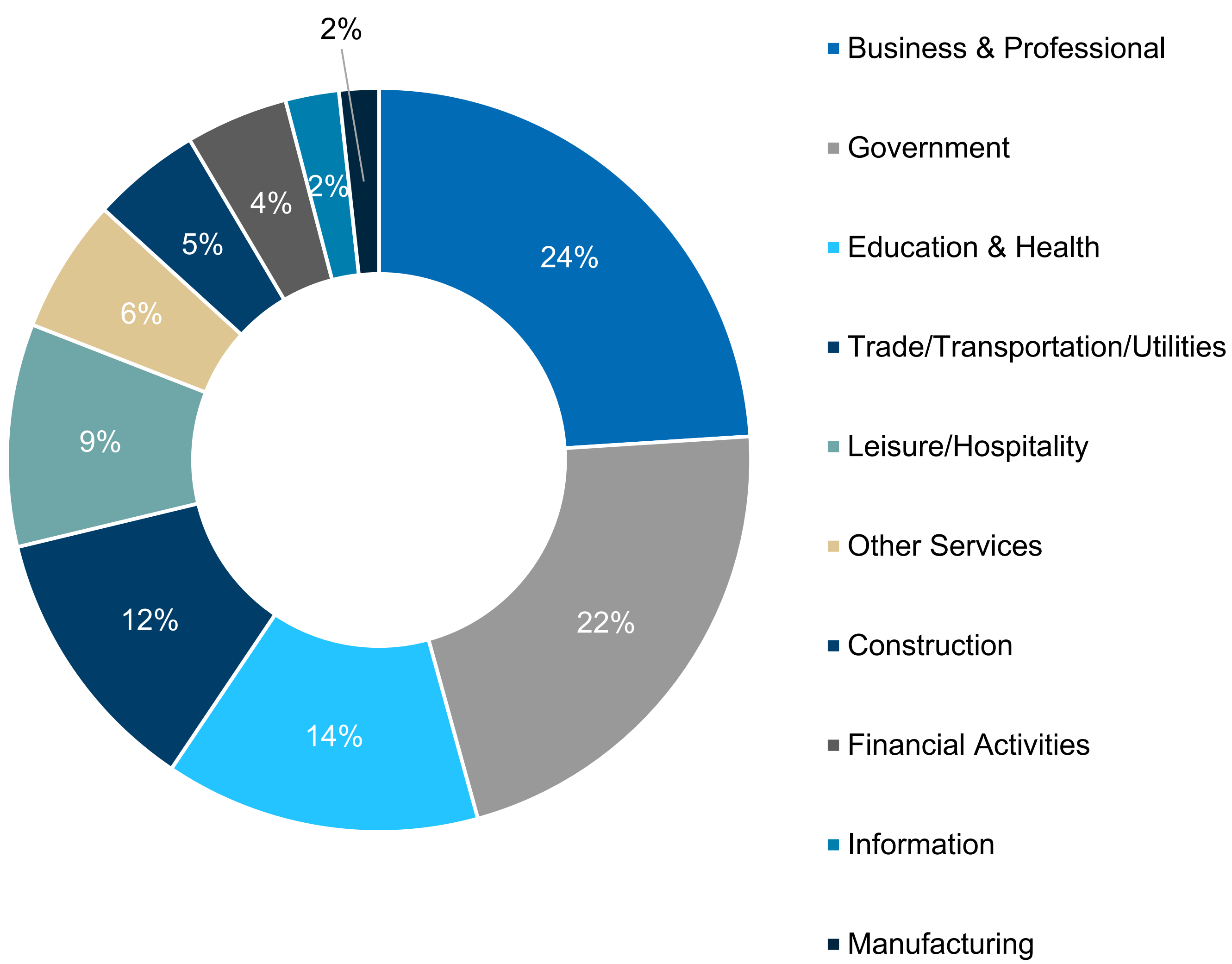


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

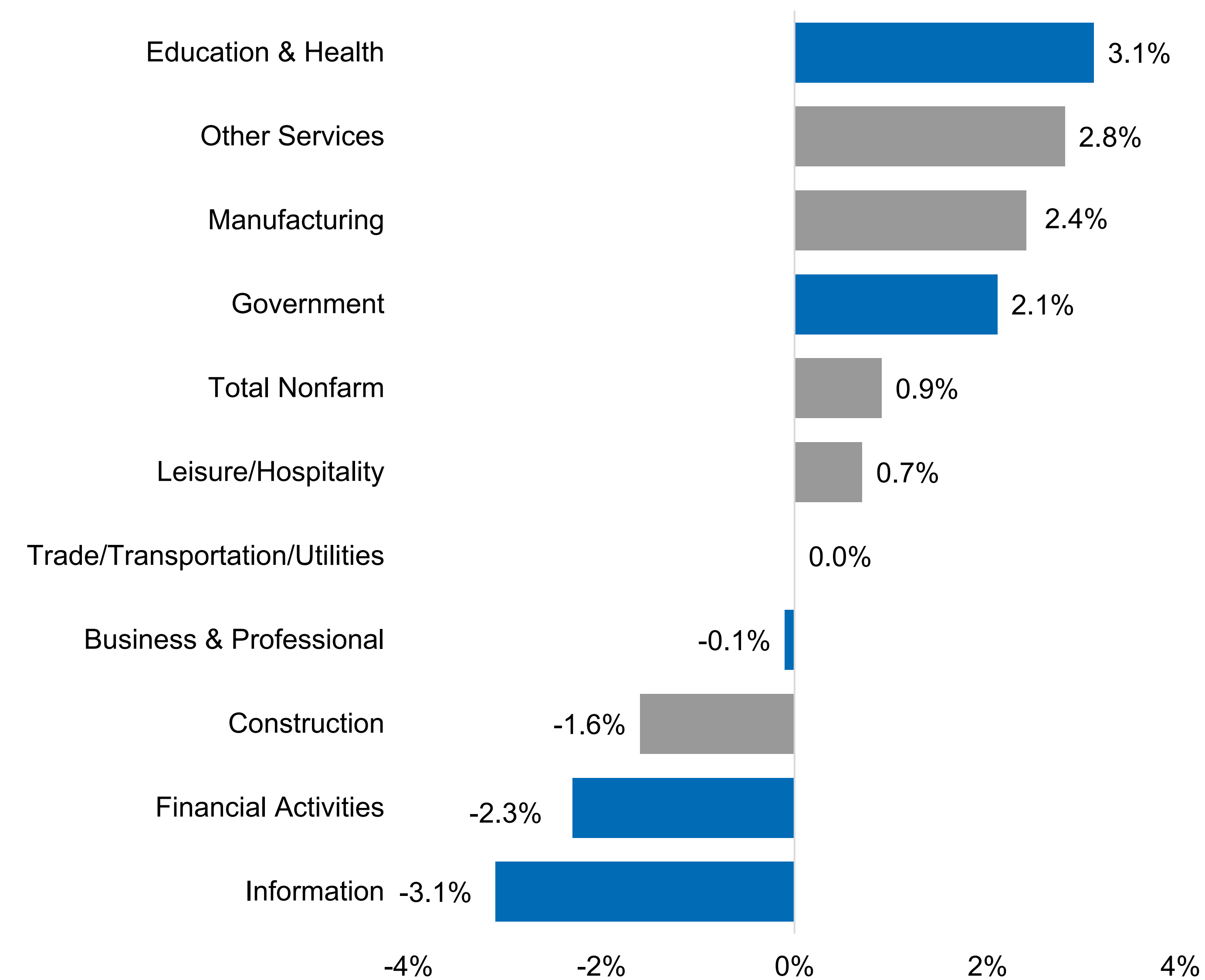
Job Growth Driven in Large Part by Education, Health, and Government

Education, Health, and Government propped up job growth in the region, leading to total nonfarm employment growth of 0.9%. Despite this, office-occupying industries of Information, Financial Activities, and Professional and Business Services experienced some job losses over the past year, contributing to declining demand for office space.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

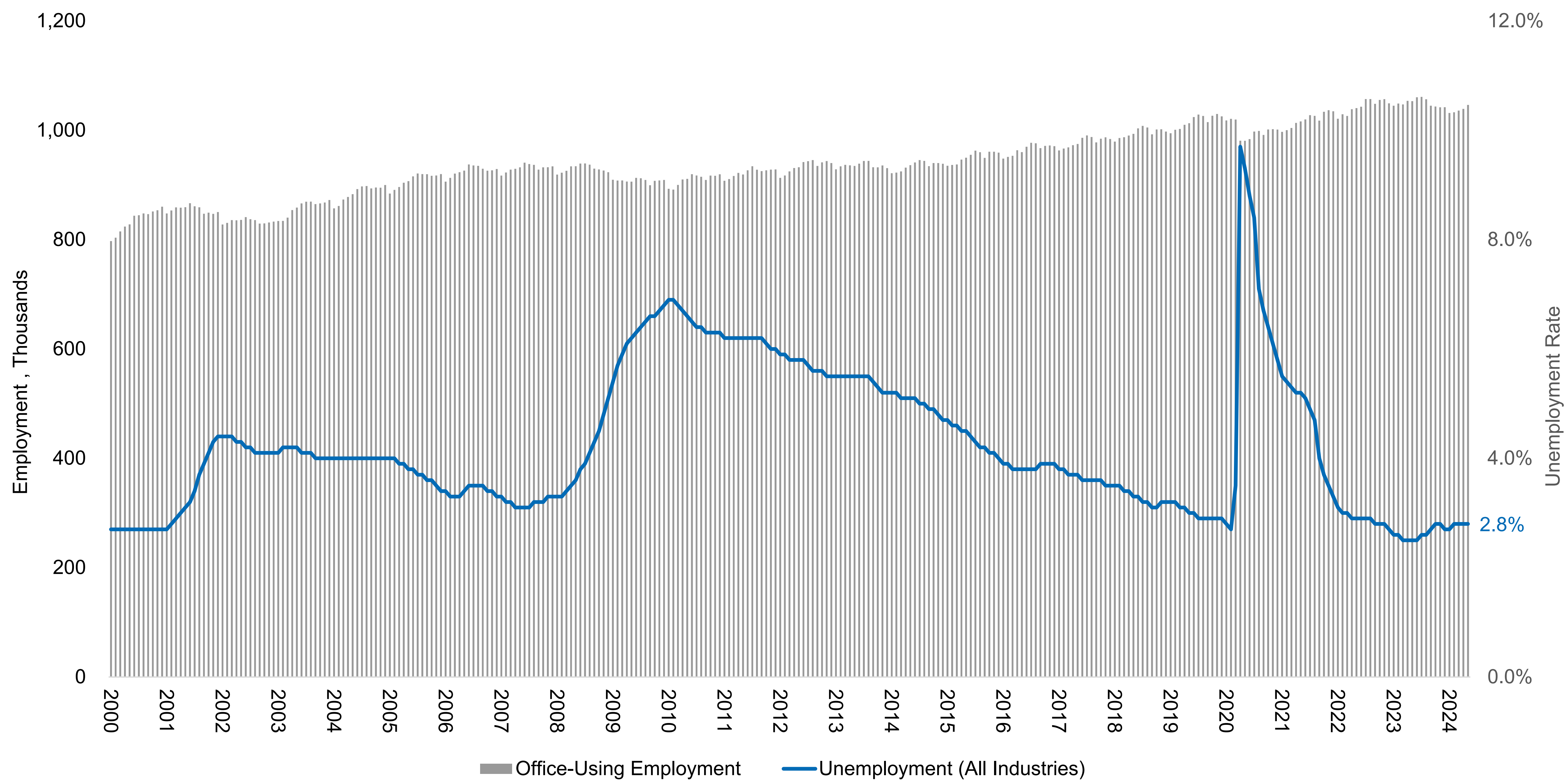


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and now exceeds pre-pandemic levels. Office-using jobs in the region are currently 2.5% higher than four years ago—just before the pandemic—and 6.7% higher than the pandemic-induced employment trough in May 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Alexandria-Arlington
Note: May 2024 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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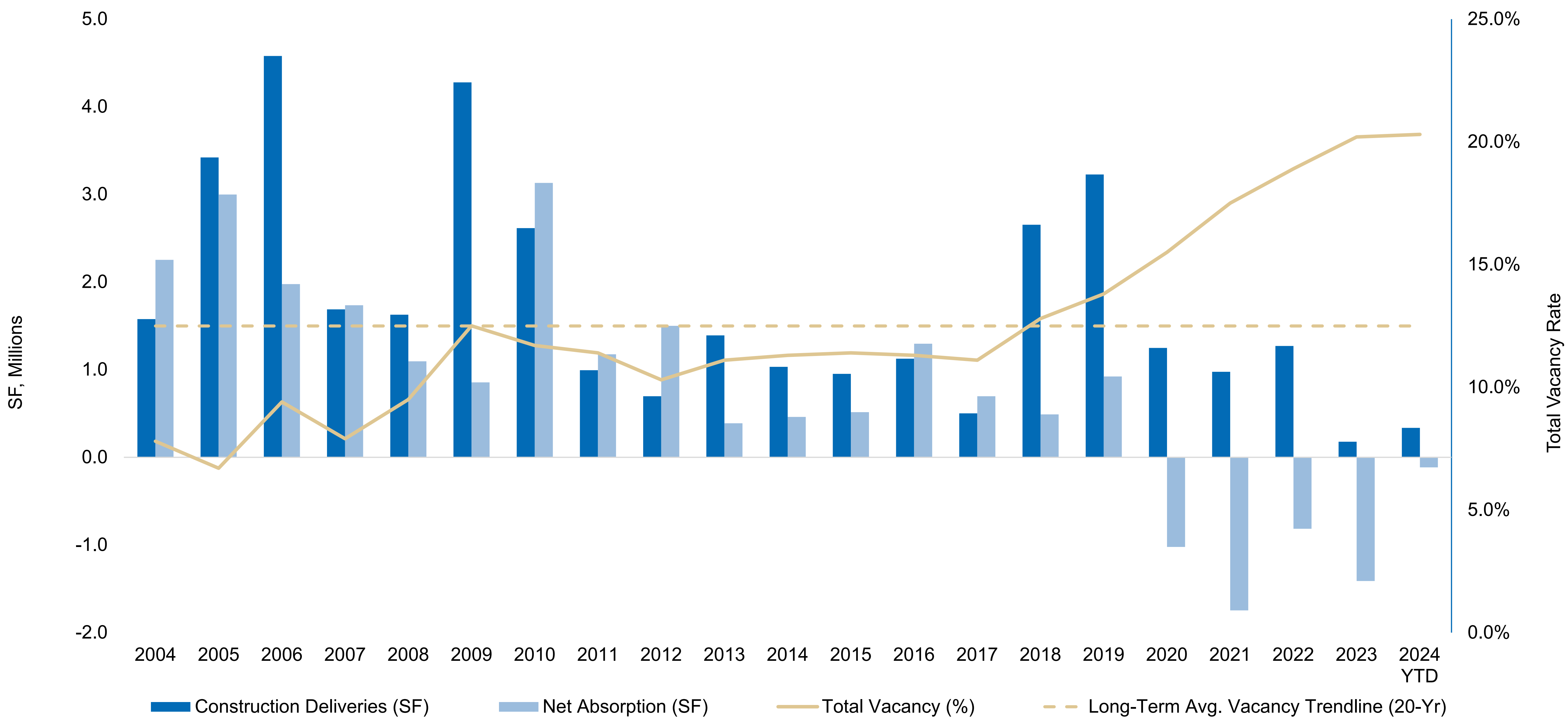
Leasing Market Fundamentals

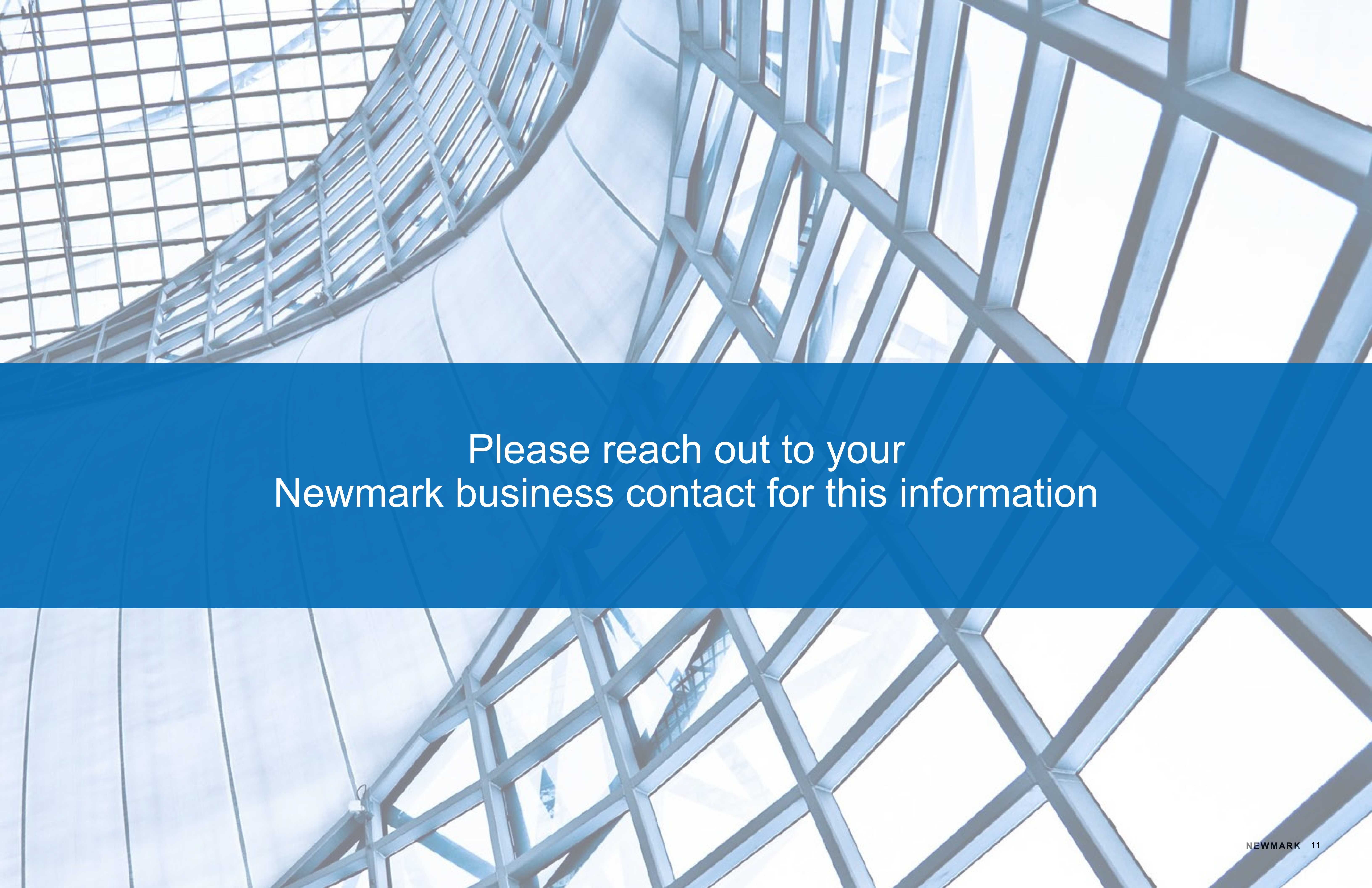
Vacancy Remains Flat Halfway into 2024

The District of Columbia's vacancy rate remained unchanged from Q1 at 20.3%. The market had one delivery during the quarter bringing 336,289 SF, a market that has averaged 1.8 million square feet of annual deliveries over the past 20 years. This slowdown in office deliveries and lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research



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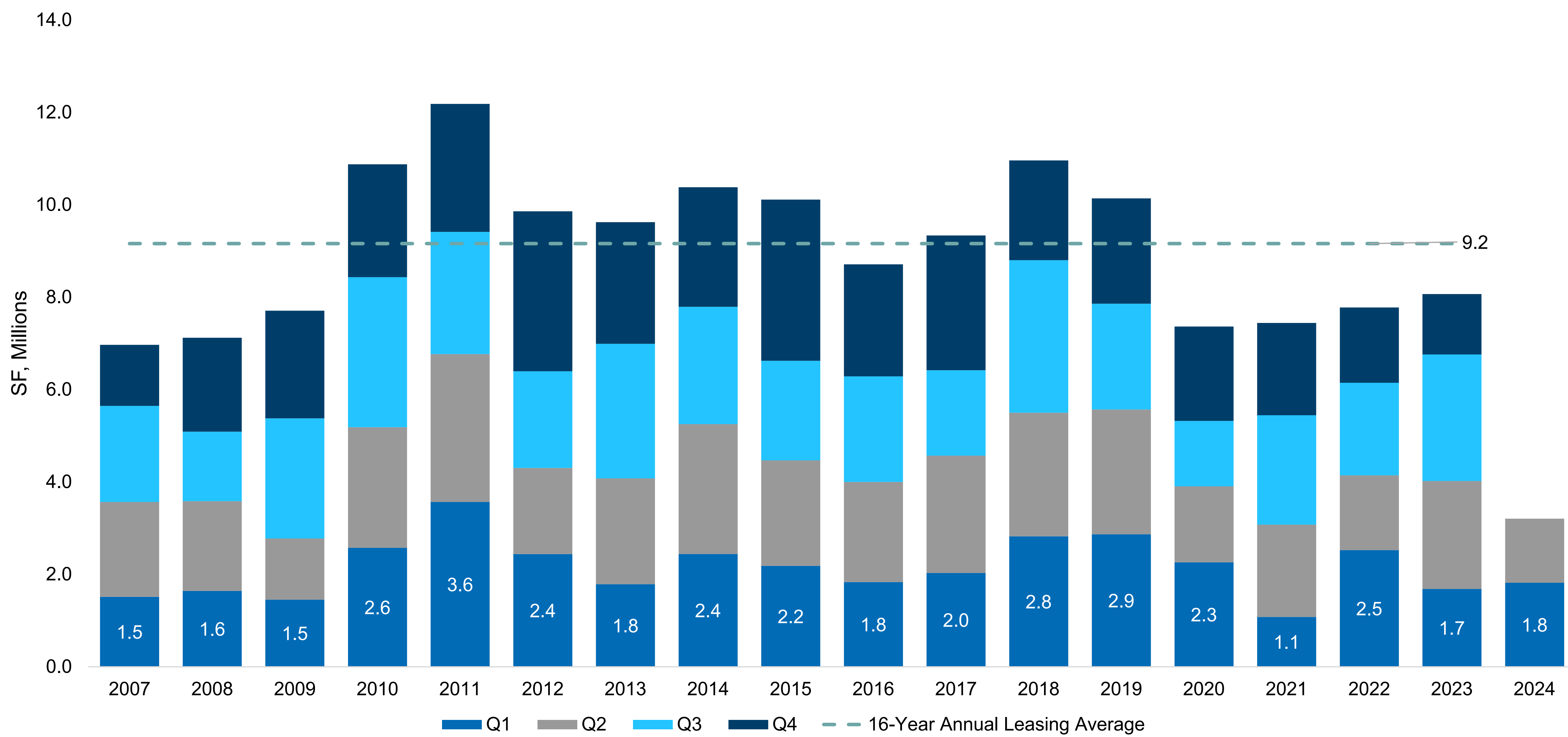
Leasing Activity Has Slowed

Leasing activity has slowed since 2020, although it picked up the pace slightly during 2023. During Q2 2024, the market saw 1.4 MSF of leasing activity, significantly lower than the same period in 2023. The market will look to accelerate leasing activity throughout 2024 with hopes of returning to normalcy and ending the year closer to the historical annual average of 9.2 MSF of annual leasing activity.

Total Leasing Activity (msf)

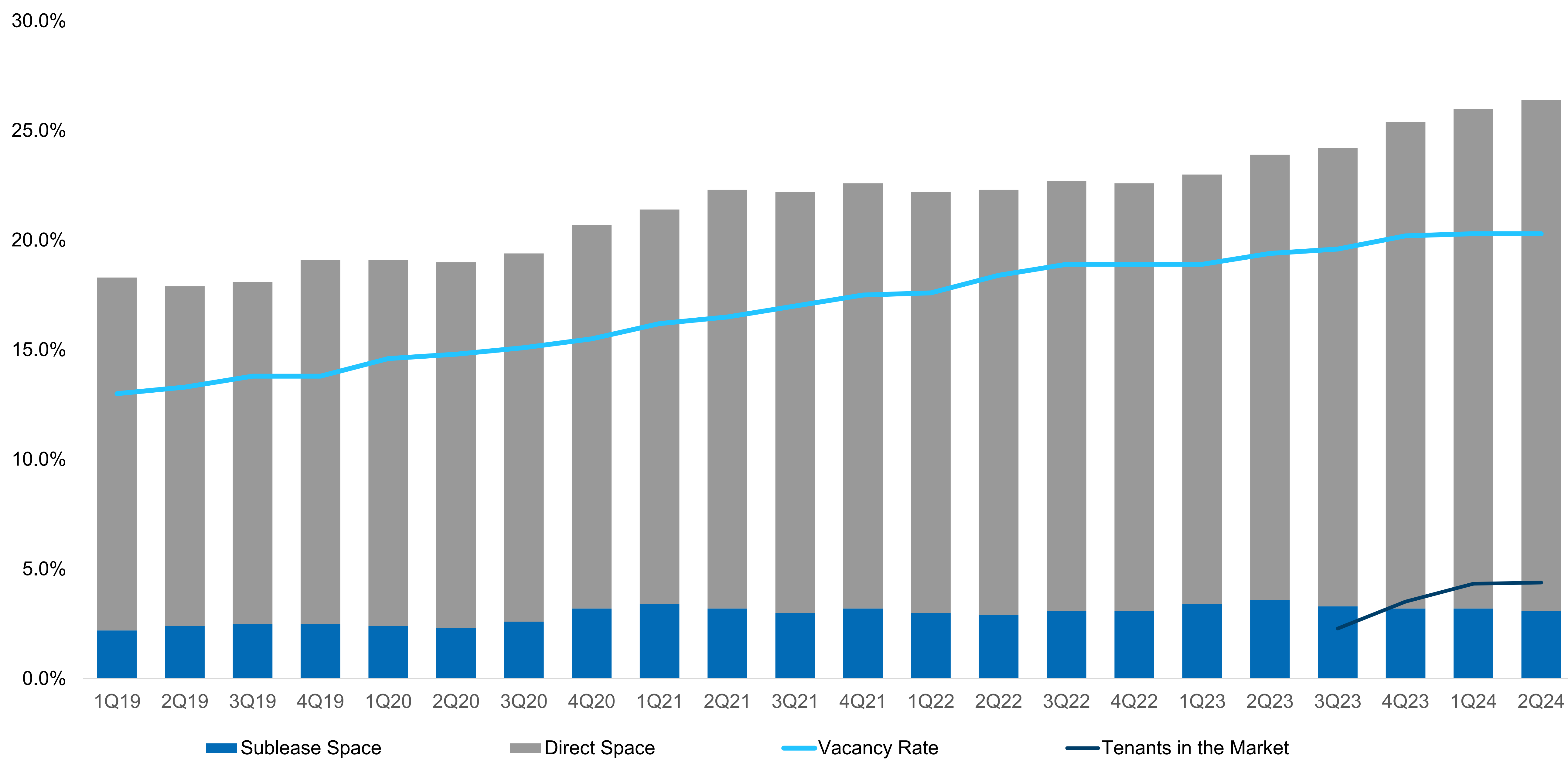


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space sits near historical highs, both in terms of direct and sublease space. Over the past five years, the direct availability rate has averaged 18.4% while the sublease availability rate has averaged 2.8%. The Q2 2024 availability rates of 23.3% for direct space and 3.1% for sublease space are well above the long-term average.

Available Space and Tenant Demand as Percent of Overall Market

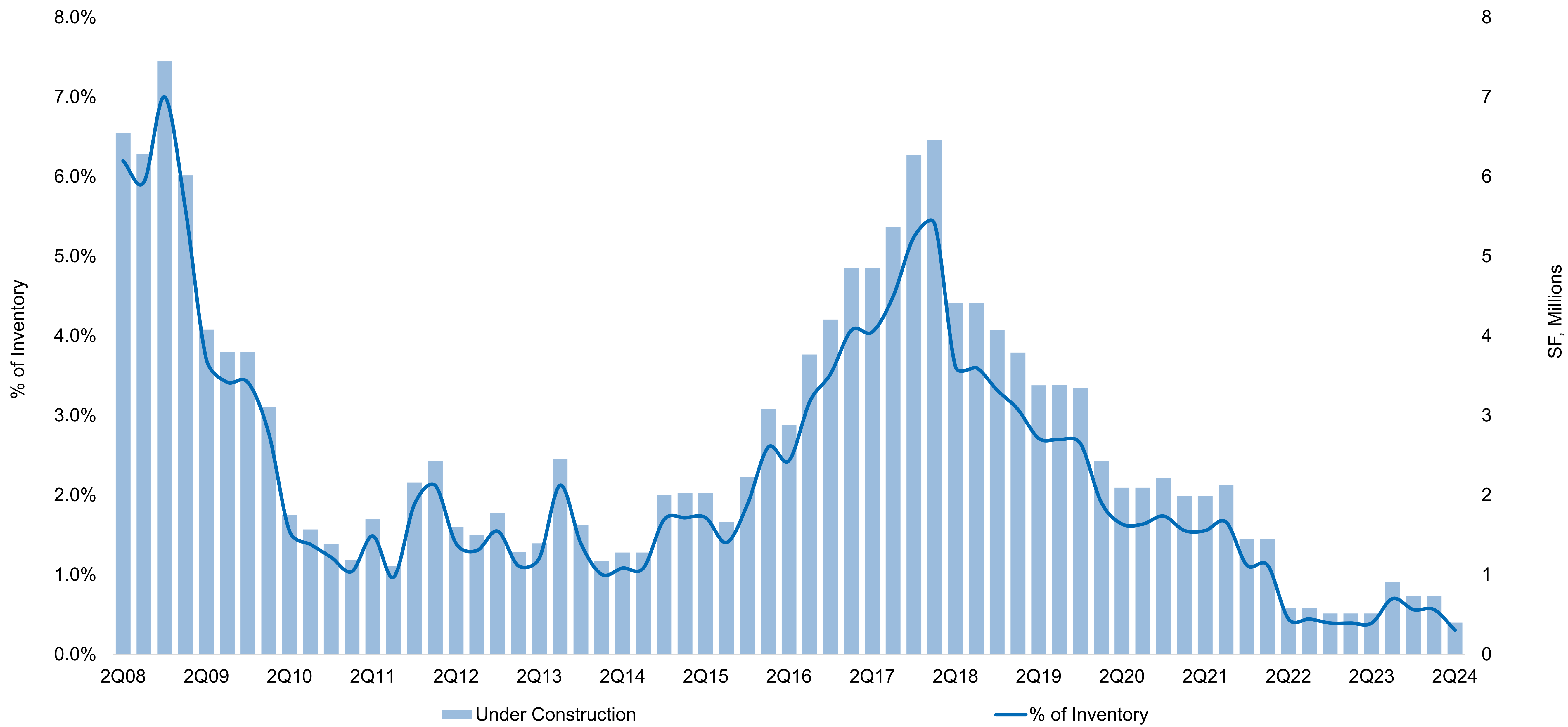


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The District of Columbia's development pipeline remains historically low, with only one delivery in Q2 2024. There is one project under construction totaling 400,000 SF. 17XM is a 336,000-square-foot office building located in the CBD. It has delivered in Q2 2024 and is 60% preleased. 600 Fifth is a 400,000-square-foot office building located in the East End. It has an expected delivery of Q1 2026 and is 54% preleased. With demand continuing to moderate, limited new supply and strong preleasing will help ease rising vacancy.

Office Under Construction and % of Inventory

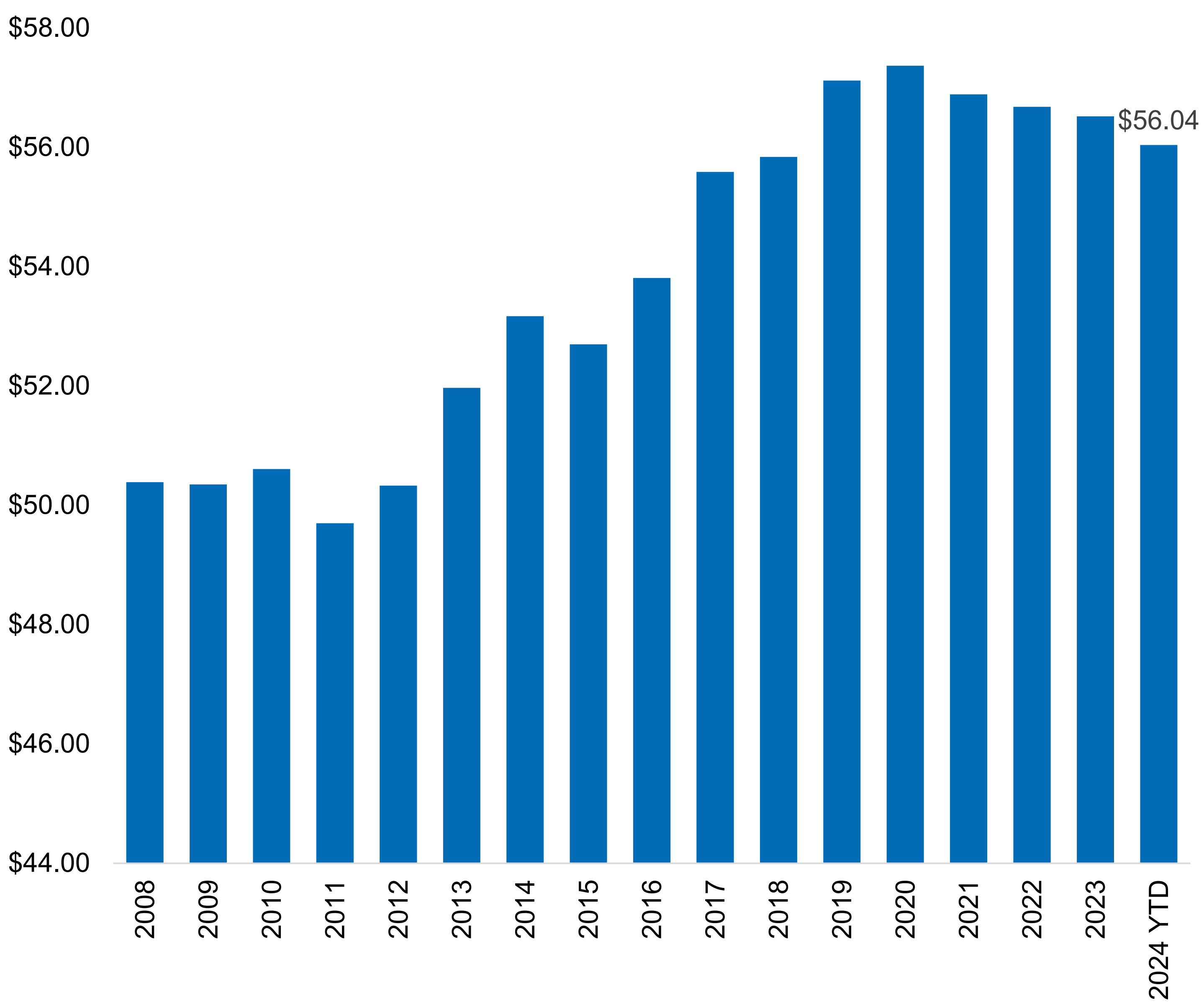


Source: Newmark Research, CoStar

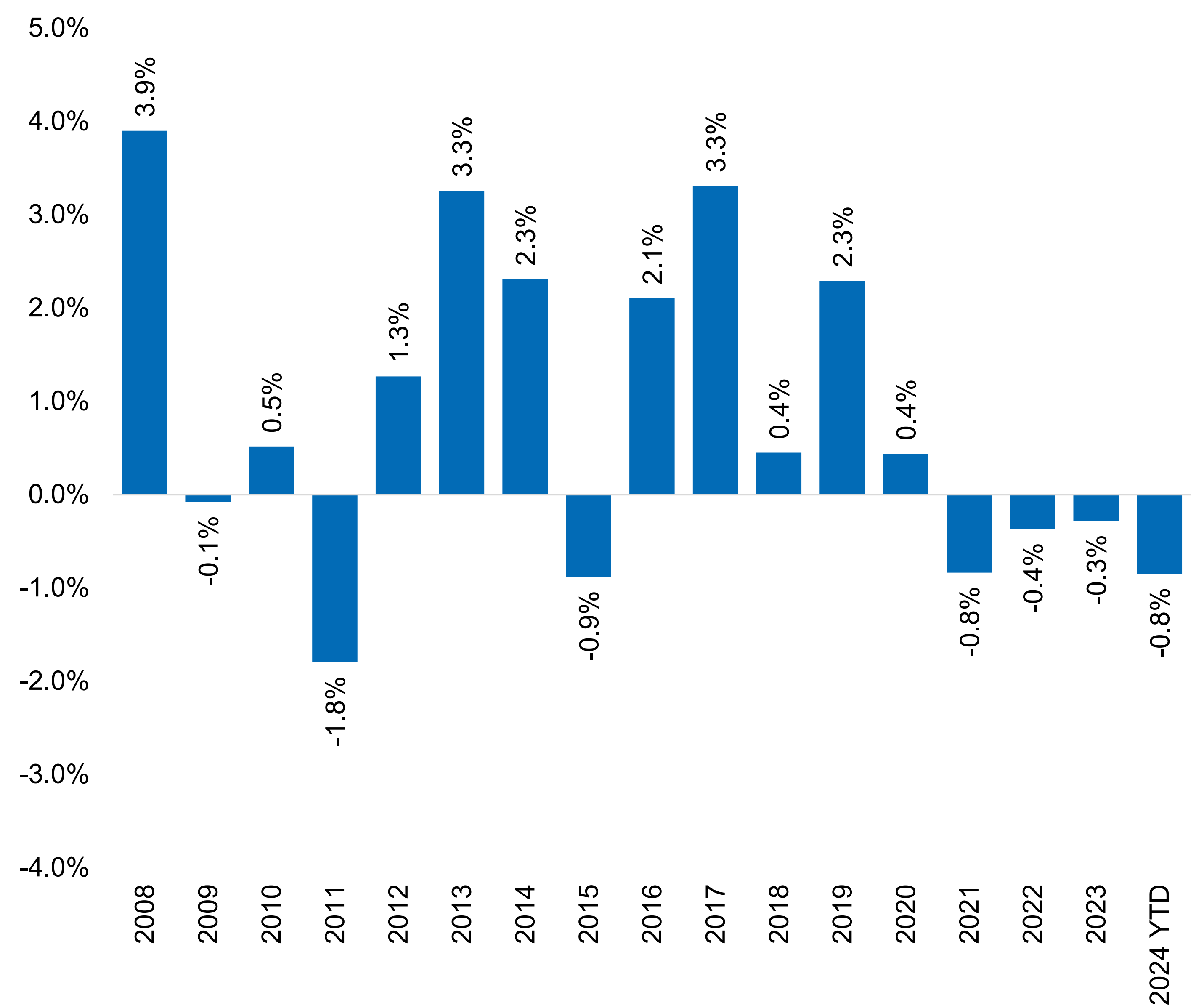
District of Columbia Asking Rents Experiencing Modest Decline

Asking rental rates have been decreasing year-over-year since 2021. The District of Columbia has not experienced sustained annual losses in asking rents since the Global Financial Crisis, but even then, it took two years for rates to noticeably drop in 2011. Continued limited demand—and in some cases, a lack of capital for concessions—has placed downward pressure on asking rents in the District.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

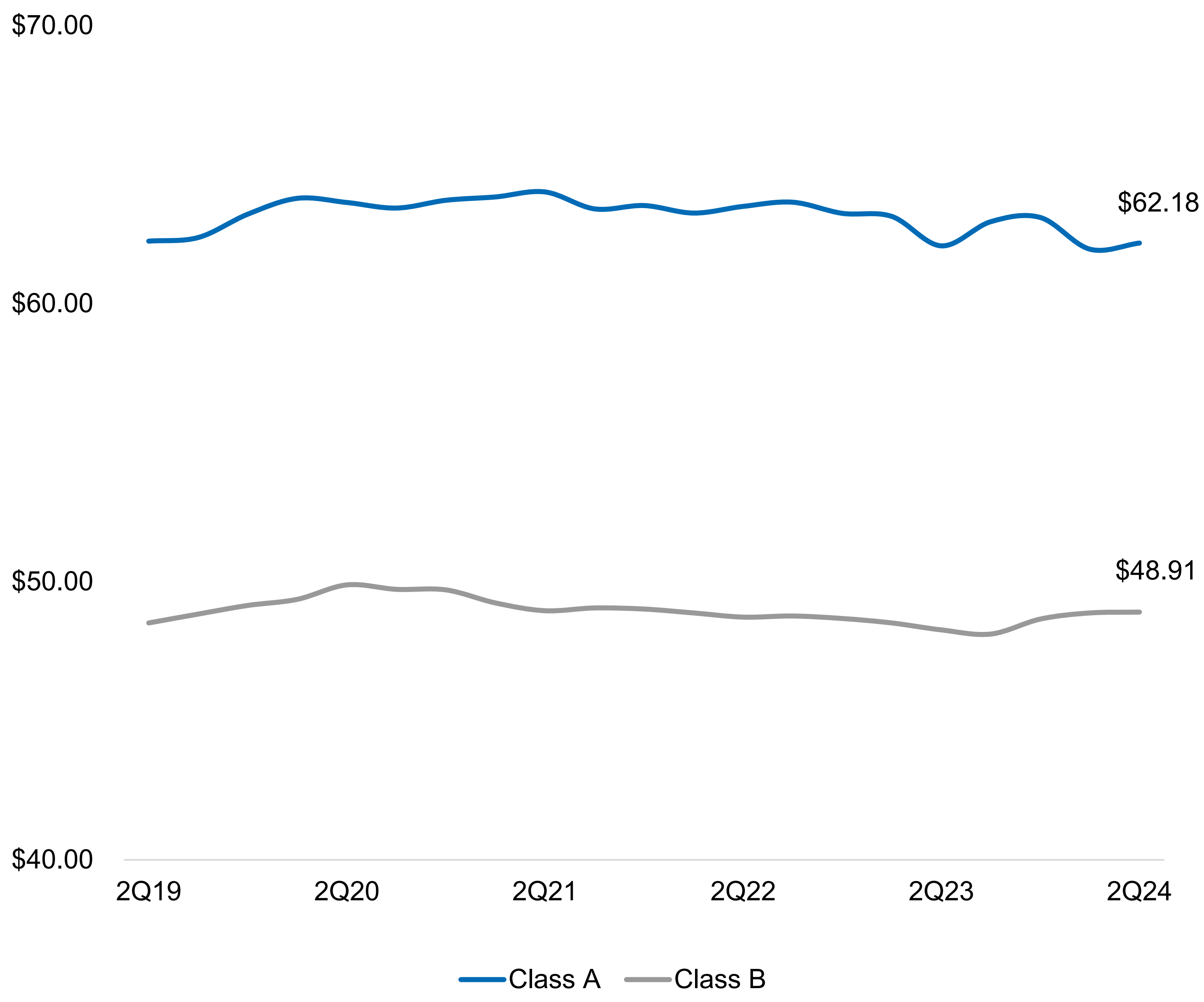


Source: Newmark Research

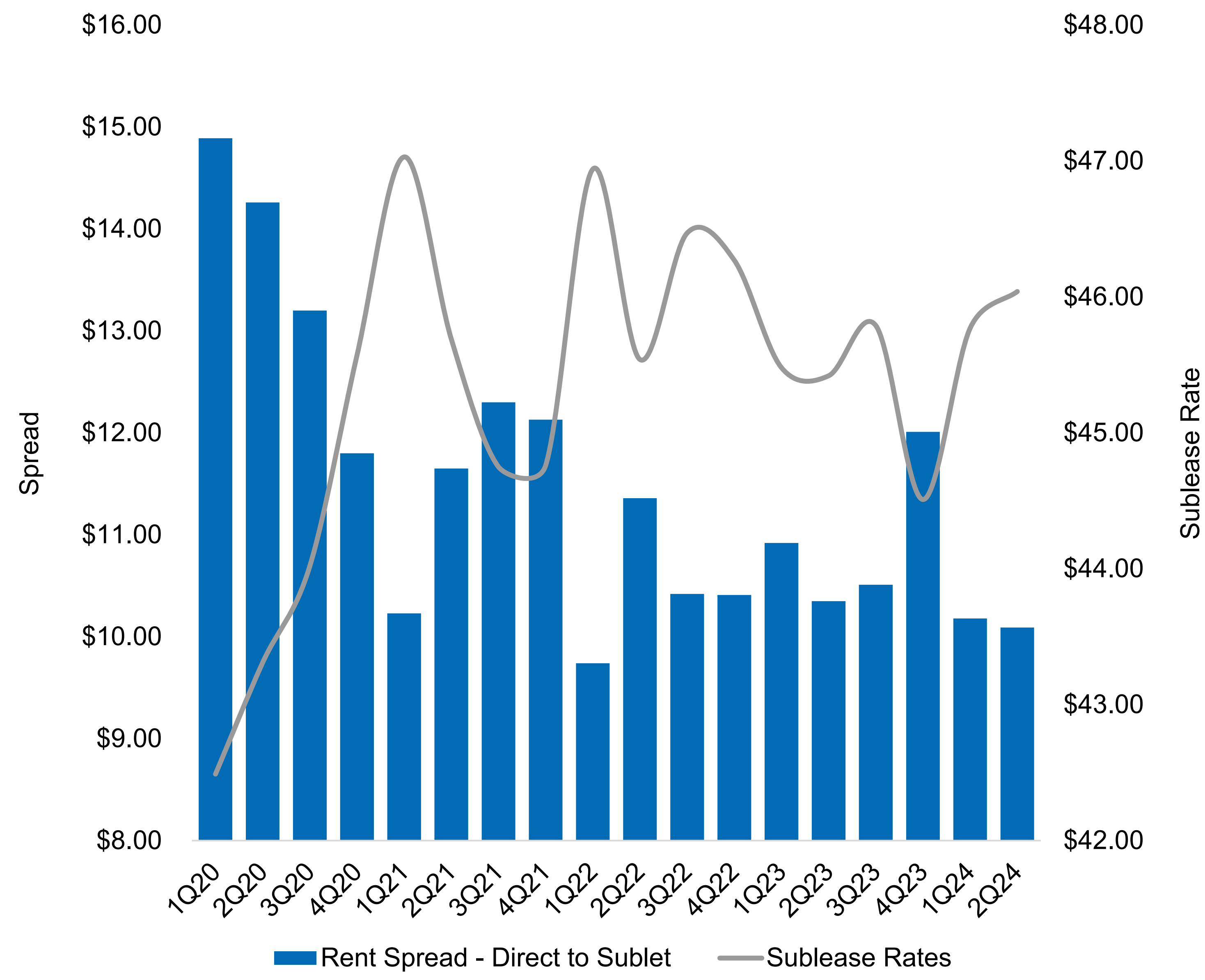
Asking Rents Rise Minimally Midway Through 2024

Overall, asking rents increased slightly midway through 2024. Class A rents were the cause of this, as they increased 0.4% quarter-over-quarter, while Class B rents increased 0.1% quarter-over-quarter. The longer-term trend, however, shows that both Class A and Class B rents have remained relatively flat since 2019. Notably, sublease rates are increasing due to an increase in quality supply hitting the market.

Class A and Class B Asking Rents



Sublease Rates

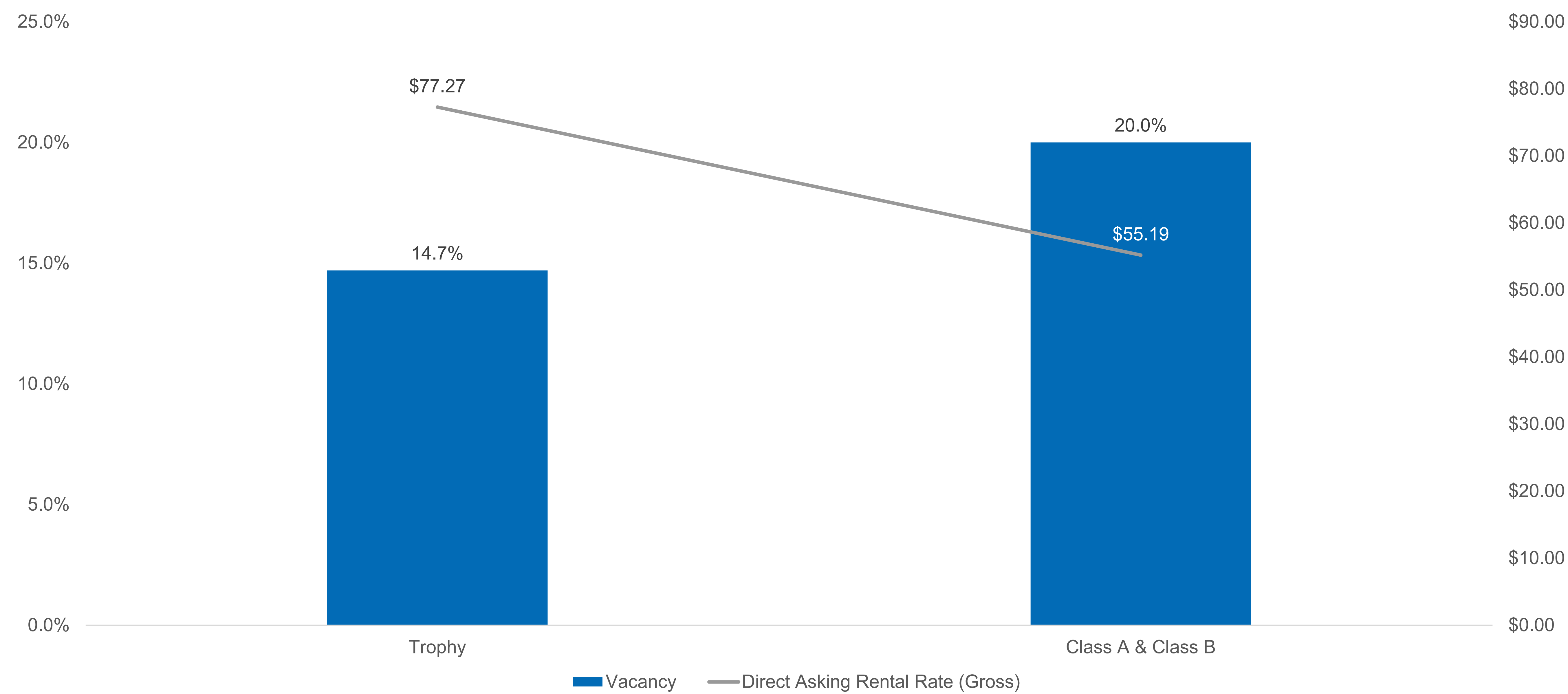


Source: Newmark Research

District of Columbia Trophy Office Outperforms Class A & Class B

The District of Columbia, like many other office markets, is experiencing a bifurcation of performance across classes. “Flight to quality” is a pervasive trend and is especially observed among Trophy assets.

Vacancy and Rental Rates By Office Class, Q2 2024



Source: Newmark Research.

Leasing Activity Dominated by Renewals

Despite negative absorption, leasing activity continues, albeit at a slower pace. Major second-quarter transactions were comprised of mainly lease renewals, with the most activity occurring within the CBD submarket, which contained three of the top five transactions.

Notable 2Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Federal Housing Finance Agency (FHFA)	400 7th Street, SW	Southwest	Lease Renewal	377,092
Commodity Futures Trading Commission (CFTC)	355 E Street, SW	Southwest	New Lease	147,000
Washington Design Center	1099 14th Street, NW	CBD	Lease Renewal	115,270
International Food Policy Research Institute	1201 I Street, NW	CBD	Lease Renewal	71,543
Carefirst	655 15th Street, NW	CBD	New Lease	65,000

Source: Newmark Research

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Submarket Stats

District of Columbia Market Overview

Market Statistics By Class

	Total Inventory (SF)	Overall Vacancy	Overall Availability	2Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Washington D.C.	**131,200,533**	**20.3%**	**26.4%**	**210,488**	**-119,039**	**1**	**1**	**336,289**	**$56.13**
Class A	81,475,715	18.1%	24.8%	-157,869	-76,808	1	1	336,289	$62.18
Class B	45,621,079	25.1%	30.3%	417,726	4,252	0	0	0	$48.91
Class C	4,103,739	12.6%	14.2%	-49,369	-46,483	0	0	0	$40.21

Submarket Statistics – All Classes

	Total Inventory (SF)	Overall Vacancy	Overall Availability	2Q 2024 Absorption (SF)	YTD Absorption (SF)	Quarter Deliveries (SF)	YTD Deliveries (SF)	Under Construction (SF)	Asking Rent (Price/SF)
Capitol Hill	5,393,778	23.1%	30.6%	-65,702	-29,338	0	0	0	$64.78
Capitol Riverfront	4,978,946	15.8%	22.0%	-9,057	7,487	0	0	0	$57.73
CBD	40,881,718	22.5%	28.4%	-155,502	-120,924	1	1	0	$56.41
East End	42,670,430	22.4%	31.7%	346,764	48,200	0	0	399,617	$58.08
Georgetown	2,782,973	24.2%	32.6%	14,966	-47,270	0	0	0	$53.79
NoMa	11,717,348	11.5%	17.0%	523	39,908	0	0	0	$46.74
Southwest	13,000,831	16.2%	15.9%	-62,665	-107,500	0	0	0	$51.77
Uptown	5,774,175	18.4%	16.8%	127,602	99,076	0	0	0	$44.48
West End	4,000,334	18.4%	20.1%	13,559	-4,498	0	0	0	$59.29

Source: Newmark Research

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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