

Washington, DC office market report

Q2 2022

**AVISON
YOUNG**



Office market trends

01

Office to residential conversions are being considered

With several projects already started, the city could address the housing issue with conversions of obsolete office buildings to residential, but rarely do they pencil.

Our take on this trend...

While this may seem like an attractive option, with 1.61 msf of development underway through 2025, and roughly 1 msf being considered, rising construction costs and regulatory hurdles will hamper efforts for more conversions. The Producer Price Index (PPI) for building materials has increased 17.3% year-over-year and retrofitting existing space is daunting for risk-adverse capital partners.

02

It's still a tenant's market with decreasing demand for office

With a recession imminent, the dwindling pool of perspective tenants are delaying their return-to-office and landlords must be more aggressive in order to increase shorter-term occupancy.

Our take on this trend...

This trend inherently favors well-capitalized landlords. Smaller, local owners, will have to get creative as loan maturities inch closer and tenants are often preferring less office space, or consider a flight-to-quality. Despite this, there is ongoing demand for move-in ready space under 10k sf, which often offers more flexibility, something tenants value now more than ever.

03

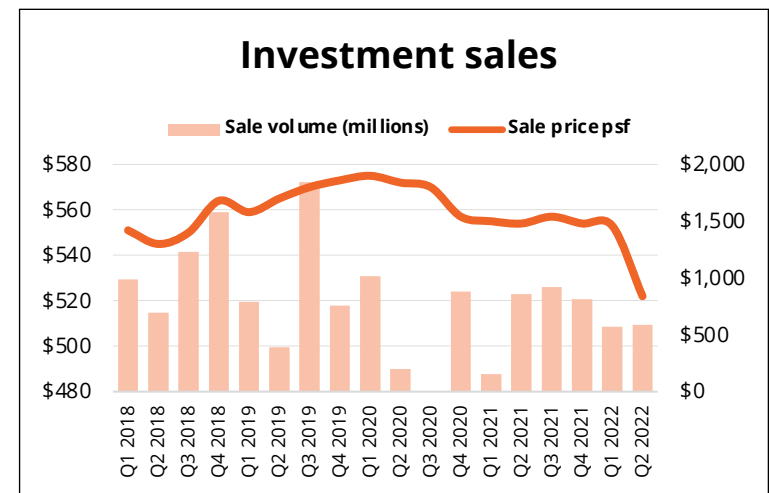
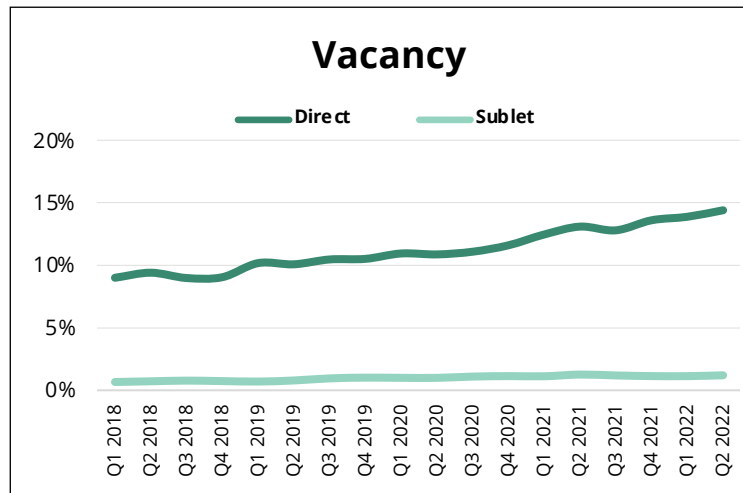
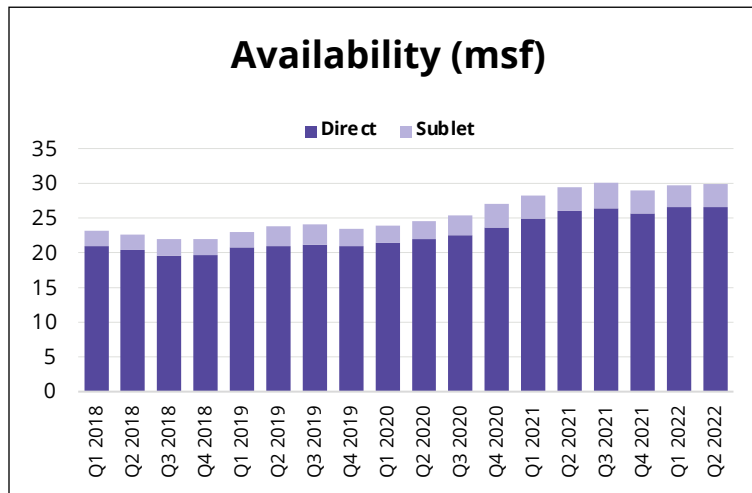
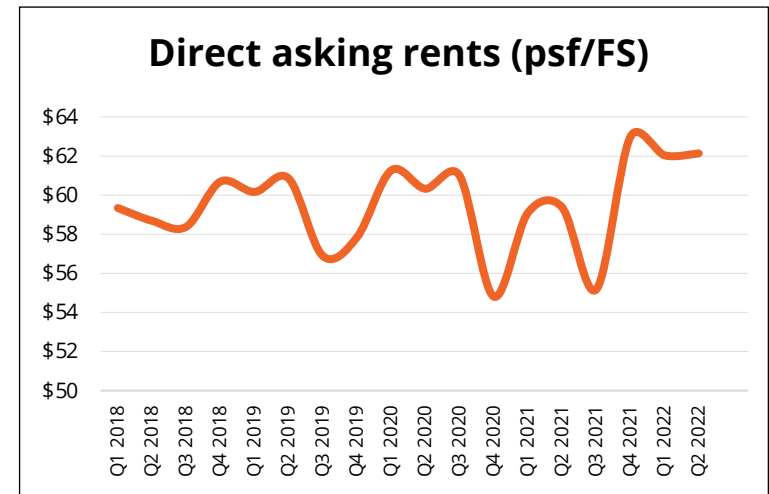
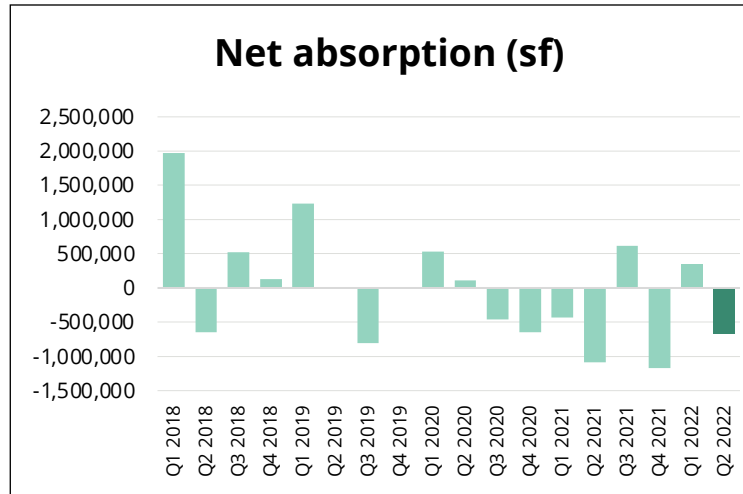
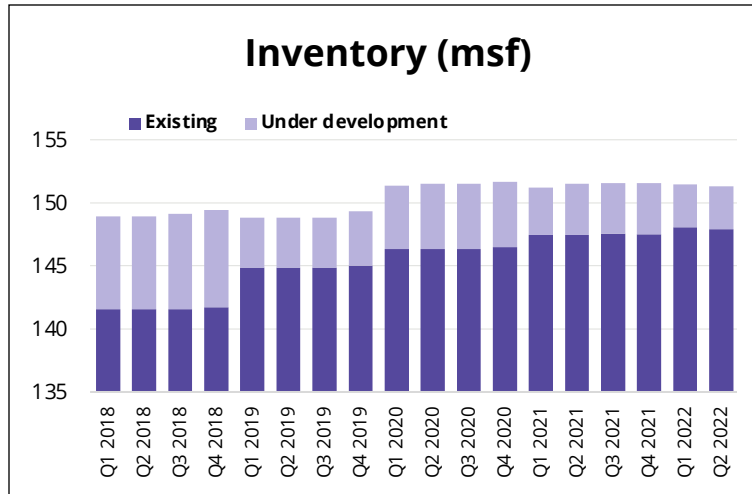
Foreign capital will enter the market at an accelerated rate

Uncertainty in global markets due to rising inflation and conflict has driven investors toward US Real Estate, particularly the District.

Our take on this trend...

Historically, foreign capital has entered the region in times of uncertainty, as investors seek a hedge against inflation, and view real estate as a safer bet than non-tangible assets. While domestic capital has been exiting the office sector, favoring "hotter" assets such as industrial or multifamily, foreign capital has interest in taking its place.

Office market indicators



Office market activity

Recent leasing activity

Tenant name	Address	Sign date	Size	Transaction type	Lease type	Term
Finsbury Glover & Hering	1299 Pennsylvania Ave NW	Jun 2022	61,000	New	Direct	10 years
Orrick	2100 Pennsylvania Ave NW	Jun 2022	70,000	New	Direct	15 years
McAllister & Quinn	1625 Eye St NW	May 2022	16,175	New	Direct	8 years
Special Olympics	2600 Virginia Ave NW	Apr 2022	35,557	New	Sublease	6 years
United States Department of Justice	555 4th St NW	Apr 2022	331,000	New	Direct	20 years

Recent sales activity

Buyer	Address	Sale date	Sale price	Sale price psf	Cap rate	Seller
Commerz Real AG	1900 N St NW	Jun 2022	\$245,522,607	\$911	6%	JBG Smith, Canada Pension Plan Investment Board
Post Brothers Apartments	1825, 1875 Connecticut Ave NW	Apr 2022	\$203,700,000	\$297	N/A (Residential Conversion)	JBG Smith
Terrania	1901 Pennsylvania Ave NW	Apr 2022	\$41,500,000	\$394	7.6%	Brookfield Asset Management
Skanska	25 M St SE	Apr 2022	\$25,675,000	\$104	N/A (Development Site)	Brandywine Realty Trust

Large contiguous space availabilities

Owner	Address	Date available	Block size	Floors	Asking rent	Landlord Broker
Rockrose	2001 K St NW	Vacant	43,178	2-3	\$52.00 NNN	Avison Young
Carr Properties	1152 15th St NW	Mar 2024	129,265	9-12	Negotiable	Carr Properties
Eastbanc	1875 Pennsylvania Ave NW	Feb 2023	281,585	1-13	\$49.00 FS	Cushman & Wakefield
PIMCO	80 M St SE	Vacant	65,488	9-10	Negotiable	JLL

Office market stats by submarket

By Submarket	Inventory (sf)	Vacancy	Net Absorption		SF Under	Average Asking Rent			Concessions	
		Total %	2Q22	YTD	Construction/Ren.	Trophy	Class A	Class B/C	Free Rent	TI Allowance
Capitol Hill	8,373,700	14.9%	-47,301	-24,240	183,515	\$93.16	\$68.19	\$59.43	25	\$140.00
CBD	38,574,233	16.9%	-297,635	-337,213	1,054,806	\$83.48	\$73.80	\$56.76	26	\$158.00
Dupont Logan Shaw	6,234,841	20.1%	22,777	167,514	58,000	-		\$54.38	24	\$137.50
East End	52,993,103	16.1%	-38,519	-241,157	373,540	\$82.38	\$70.88	\$54.37	24	\$160.00
Georgetown	2,978,519	14.0%	-23,581	-34,973	0	-	\$49.82	\$46.96	18	\$130.00
Navy Yard	4,782,590	15.8%	-46,373	-138,264	0	-	\$60.26	\$48.29	20	\$140.00
NoMa	7,998,680	8.3%	-43,675	-80,657	636,916	-	\$51.01	\$49.70	20	\$95.00
Northeast	2,255,919	19.1%	-19,536	-7,196	32,251	-	\$62.00	\$55.19	18	\$145.00
Southwest	684,166	0.0%	0	0	765,200	\$76.25	\$65.74	\$55.74	15	\$127.50
Southeast - East of the River	13,210,882	13.3%	-148,886	318,394	89,250	-	-	\$41.68	12	\$90.00
Upper Northwest	5,033,477	12.5%	-6,770	-14,067	216,655	-	-	\$41.37	10	\$100.00
West End	4,766,293	13.7%	-16,826	67,418	0	-	-	\$54.05	24	\$140.00
Market Total	147,886,403	15.5%	-666,325	-324,441	3,410,133	\$83.82	\$73.70	\$52.81	20	\$130.25

Office market stats by class

By Class	Inventory (sf)	Vacancy	2Q Absorption	YTD Absorption	SF Under Construction/Ren.	Available Sublease
Trophy	9,769,525	10.7%	-187,531	670,464	1,145,540	207,574
Class A	33,848,850	14.4%	95,194	177,012	1,107,014	1,081,146
Class B/C	104,268,028	16.3%	-573,988	-1,171,917	1,157,579	2,021,544
Market Total	147,886,403	15.5%	-666,325	-324,441	3,410,133	3,310,264

For more market insights
and information visit
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