



# Washington, DC office market report

Q4 2022

**AVISON  
YOUNG**

# Washington, DC office market indicators

**37.4%**

Office visitor volumes the week of December 19, 2022, relative the week before the lockdown (March 15, 2020). This is measured using **Avison Young's Vitality Index**.

**16.7%**

Vacancy rate in DC office buildings. This is up from 15% as of year-end 2021.

**1.78 msf**

Under construction or renovation in DC. With suppressed demand, developers have been apprehensive to construct new office product. This represents the lowest amount of space in the pipeline since 2014.

**3.46 msf**

Current amount of space on the sublease market. This is up from 3.23mm sf as of year-end 2021.

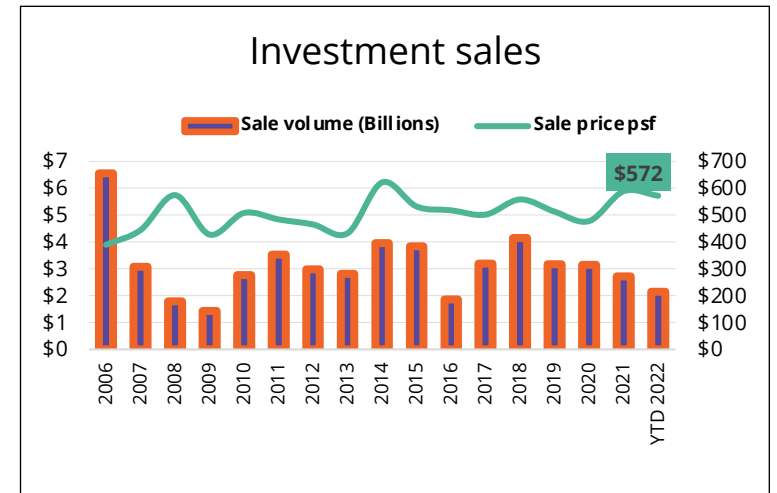
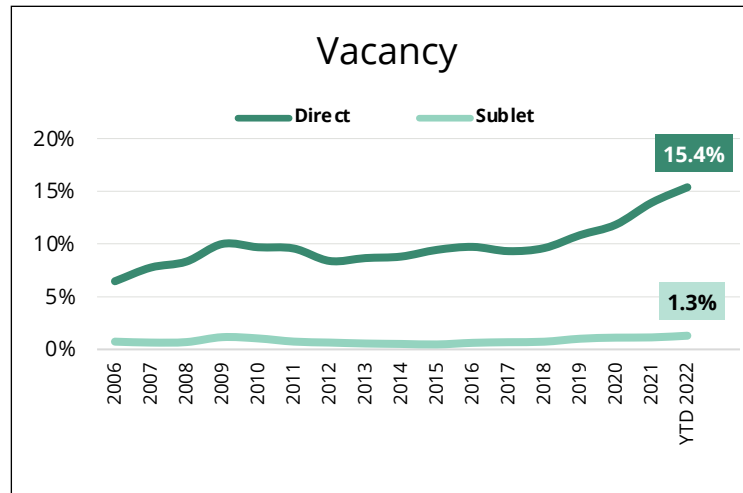
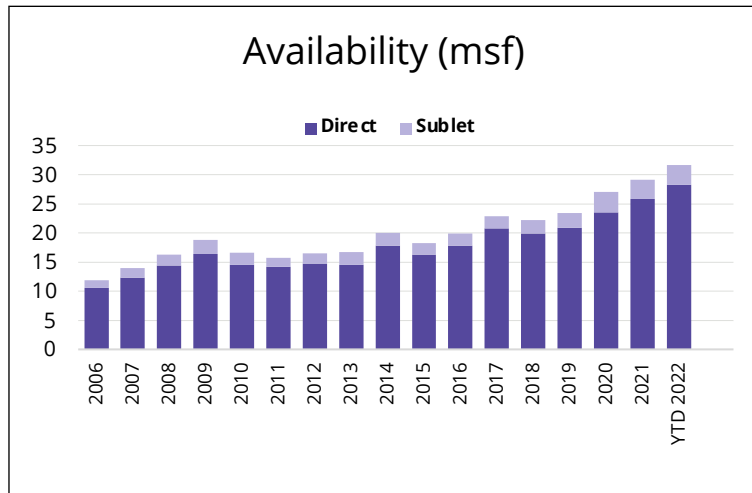
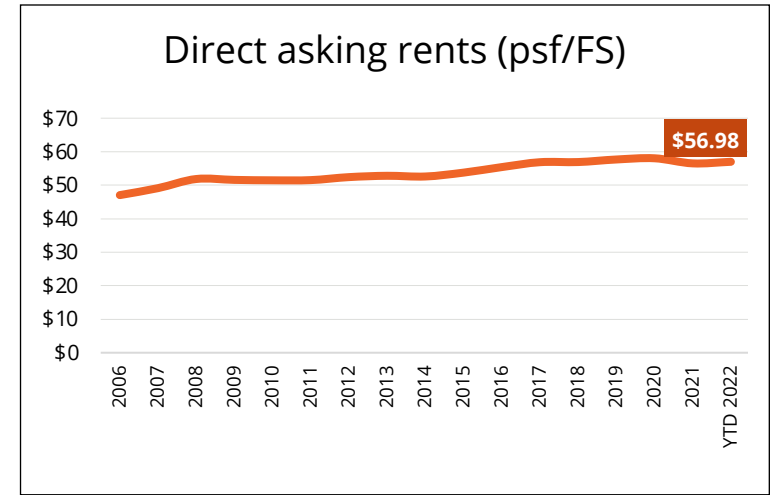
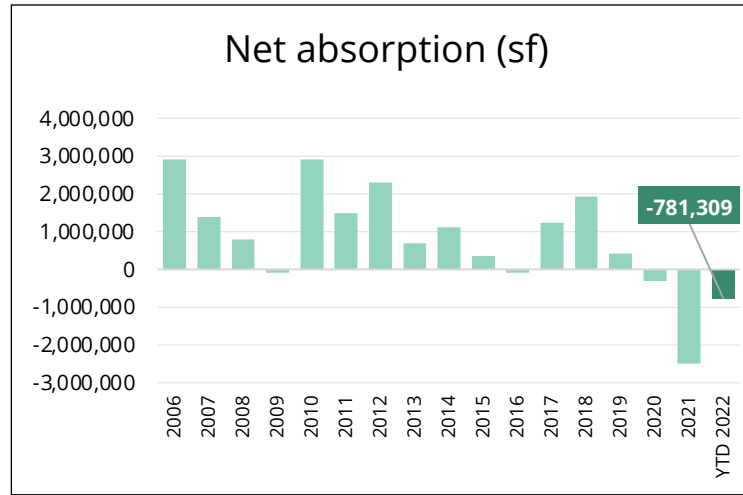
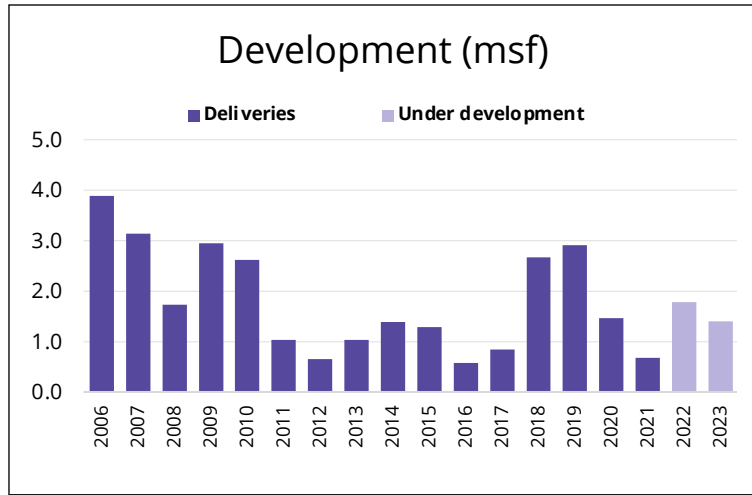
**21.3%**

Availability rate in DC office buildings. This is up from 19.8% as of year end 2021. This delta between vacancy and availability signals many pending move-outs, where tenants have elected to take less space or shed offices altogether.

**\$2.14 b**

2022 office sales volume. This is down from \$2.71 b in 2021. In the same period, cap rates have increased 400 bps from 5.4% to 5.8% on average

# Washington, DC office market indicators

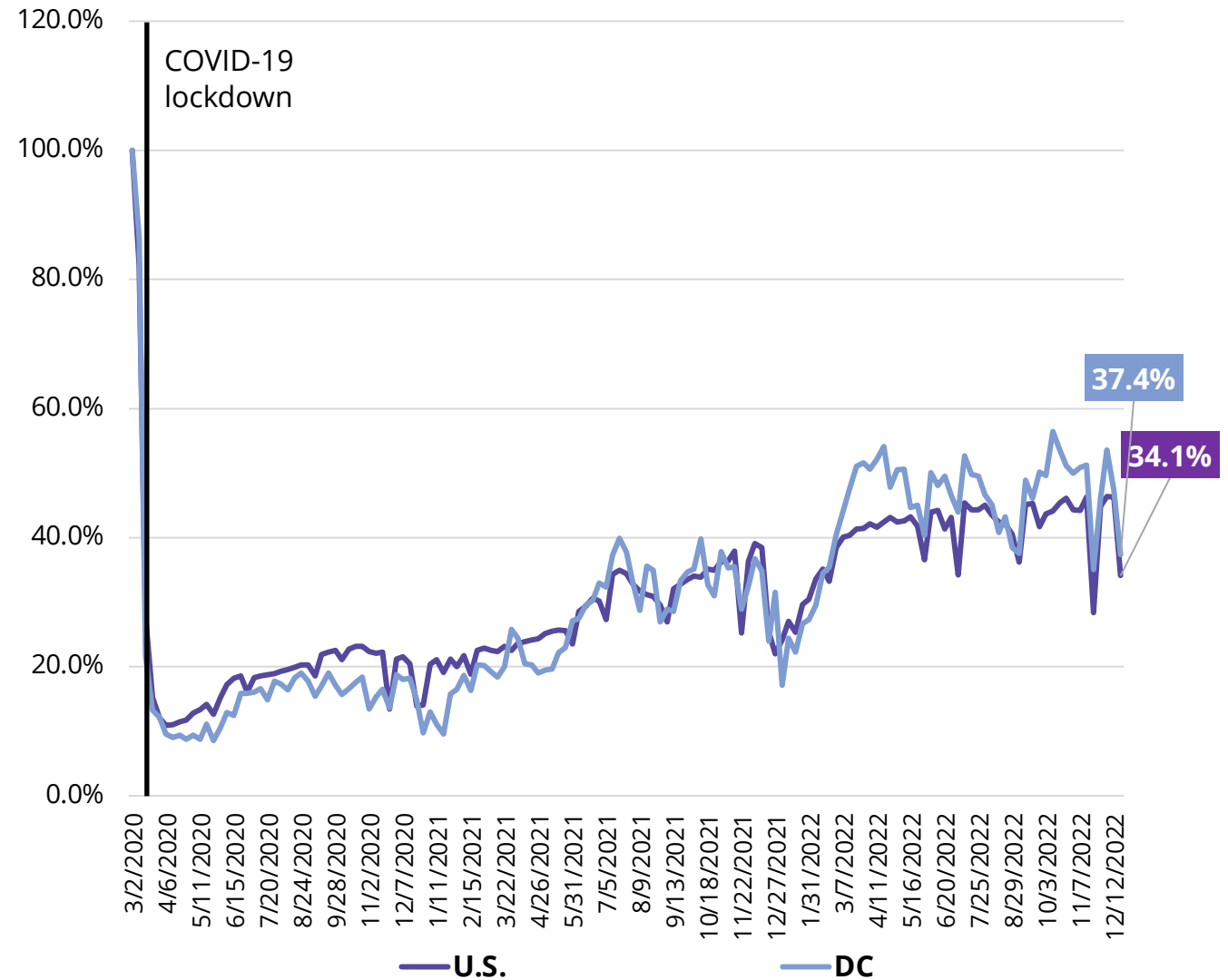


# Office Visitor Volumes

# 37.4%

DC visitor volumes, week before lockdown vs. week of December 19, 2022.

DC return-to-office efforts generally trailed the national average until early 2022. Currently, DC sits 3.3% higher than the national average in terms of return-to-work efforts.



Note: Representative education, government, healthcare, hospitality, recreation and tourism, office, retail and transit locations. Weekdays and weekends.  
Source: AVANT by Avison Young, Orbital Insight

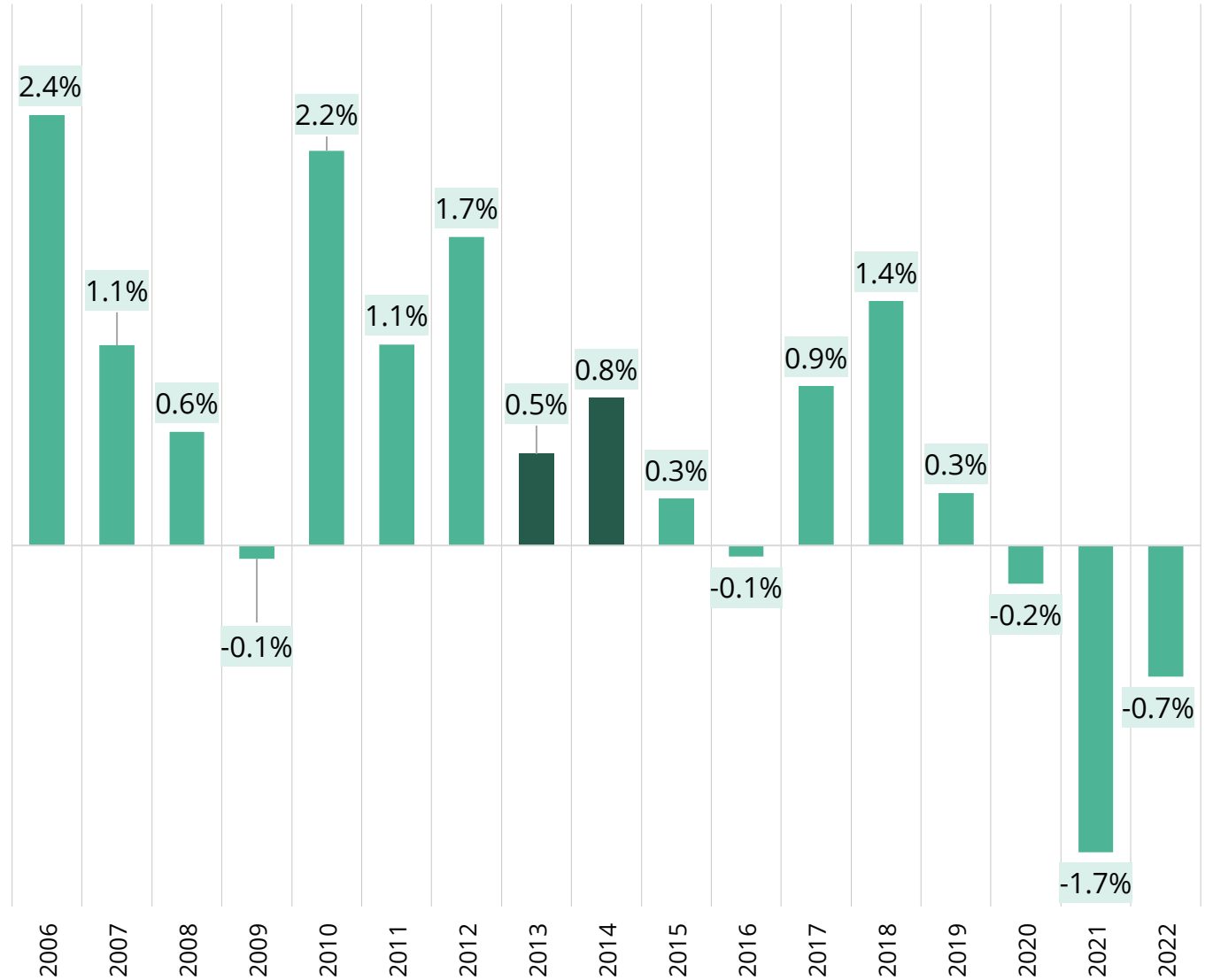
**Explore Vitality Index**

# Net absorption as a share of inventory

# -0.7%

Negative absorption as a percentage of overall inventory.

With DC's office inventory sitting at roughly 148.7mm sf, this figure represents an annualized net absorption value of -1.08mm sf. This is in comparison with -2.5mm sf in 2021. Several large move-ins mitigated this figure, but a large majority of them, such as Williams & Connolly at 680 Maine, represent a reduction in size from their original footprint. Many of the leases commencing this year were signed pre-covid as well, before remote-working arrangements were as prevalent.



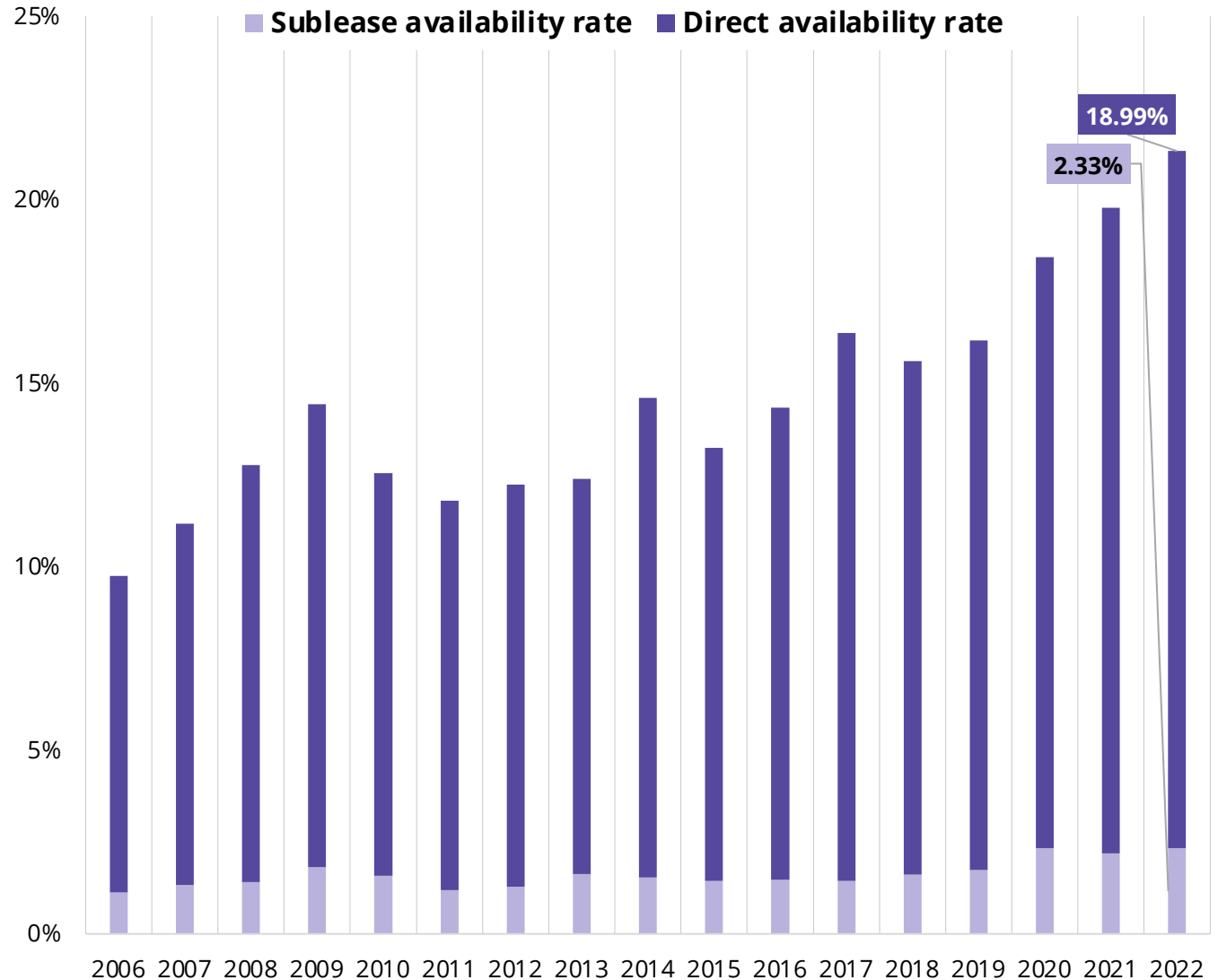
Source: AVANT by Avison Young, CoStar

# Washington, DC availability rate

# 31.7 msf

Total available space in DC as of  
Q4 2022

Washington DC's availability rate is the highest it has been in the last two decades. Since the onset of the pandemic, tenants have often opted to take less space in nicer buildings, that can offer more amenities. The availability rate is an indicator of pending vacancy, and with tenants often reducing their footprints, this could continue to trickle up. Many owners have looked to residential conversion as a potential lifeline, but that brings its own set of challenges to the table.

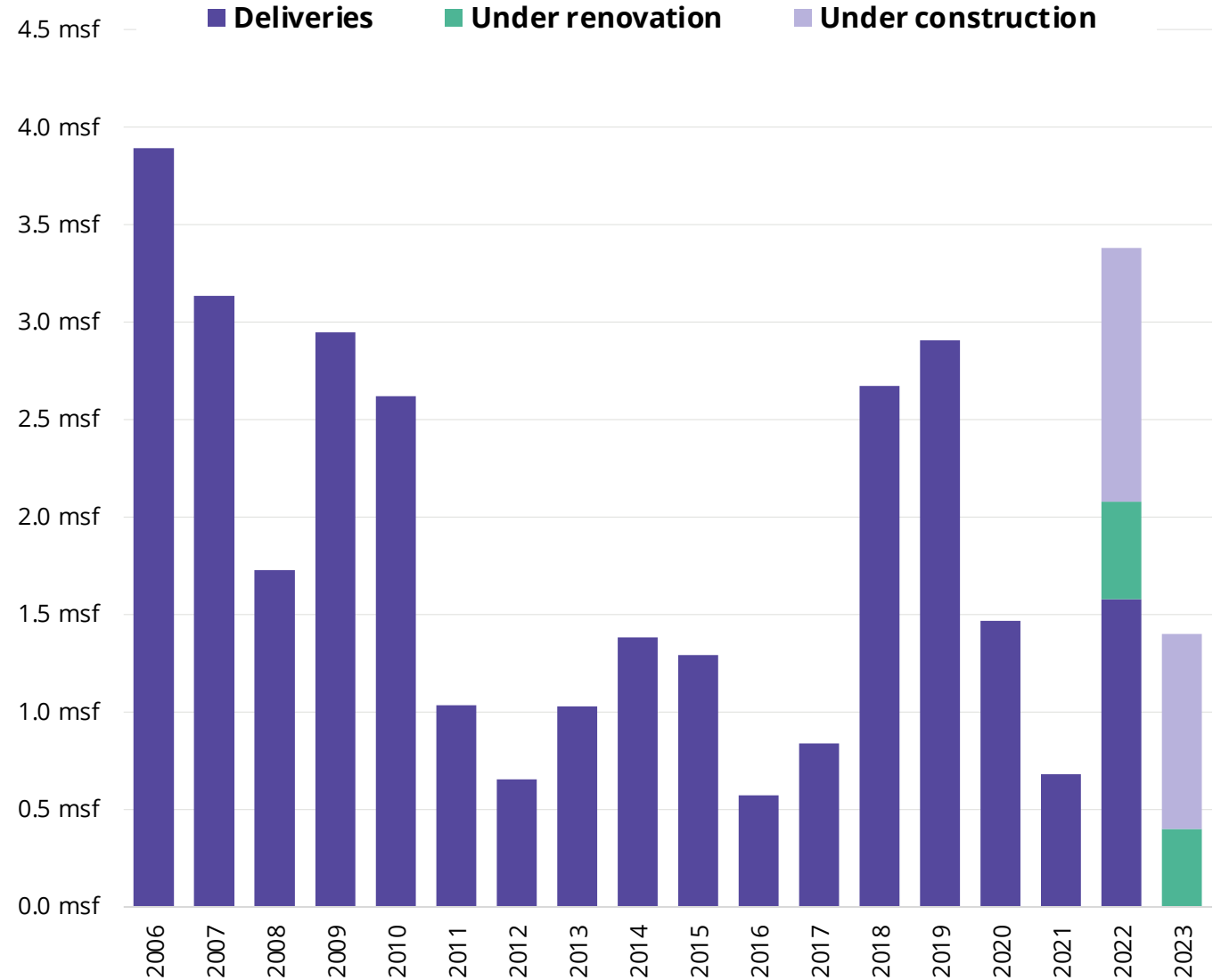


# Washington, DC development activity

# 1.78 msf

Currently under Construction or Renovation in Washington, DC.

Due to suppressed demand on the part of office tenants, DC has seen limited construction starts since the onset of the pandemic in 2020. Currently, there is very limited private sector space underway with 1700 M St NW and 20 Massachusetts Ave NW representing a bulk of that space. However, look to see this trend reverse as flight to quality persists, likely resulting in supply constrains in the trophy section of the market.



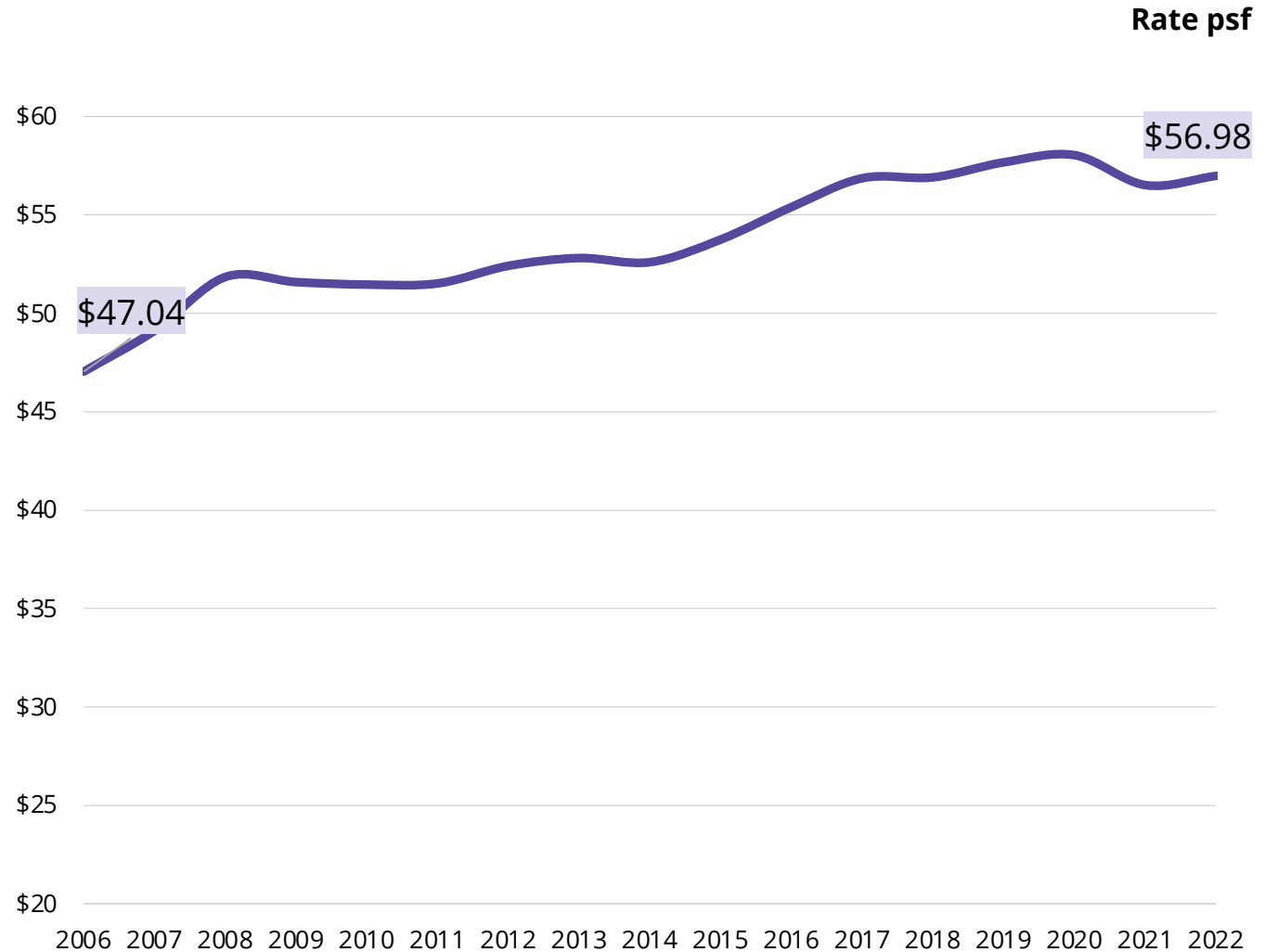
Source: AVANT by Avison Young, CoStar

# Washington, DC asking rents

# \$56.98 psf

Average weighted rent in Washington, DC office buildings

DC rents have remained stagnant since 2020 as a result of suppressed demand on the part of tenants. However, while asking rents have remained constant, net effective rents have dropped due to a rise in concessions offered by landlord to lure tenants from a shrinking pool. These concessions take the form of free rent, and tenant improvement allowances.



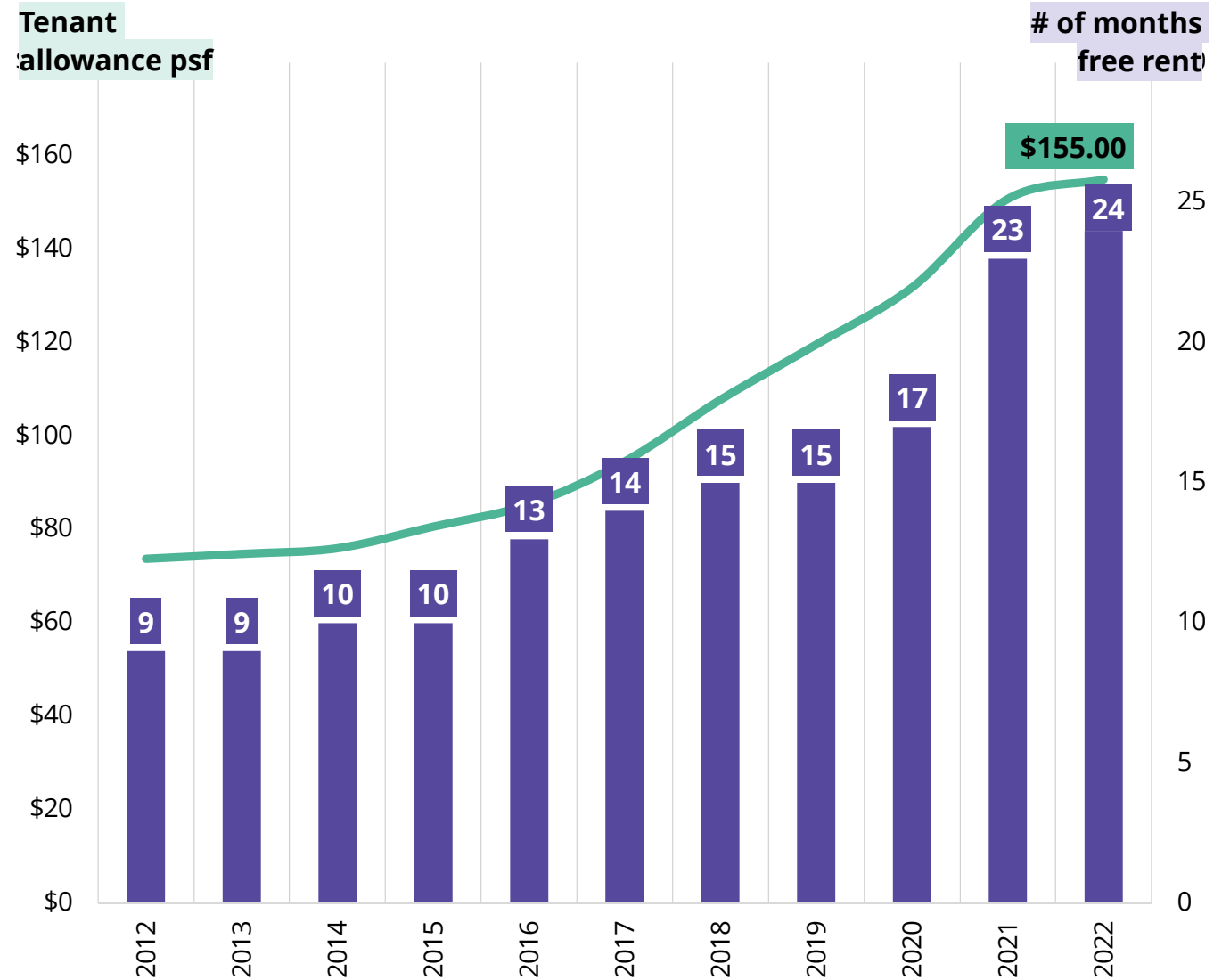


# Office tenant concessions

# +2.72%

Change in tenant improvement allowance amounts, year-to-date 2022.

As construction costs have risen, and the pool of prospective tenants has dwindled, landlords have been forced to grow increasingly aggressive with the build out allowances to lure prospective tenants. In addition, a healthy amount of free rent is often needed to seal the deal.



Note: Excludes subleases, expansions and renewals.  
Source: AVANT by Avison Young

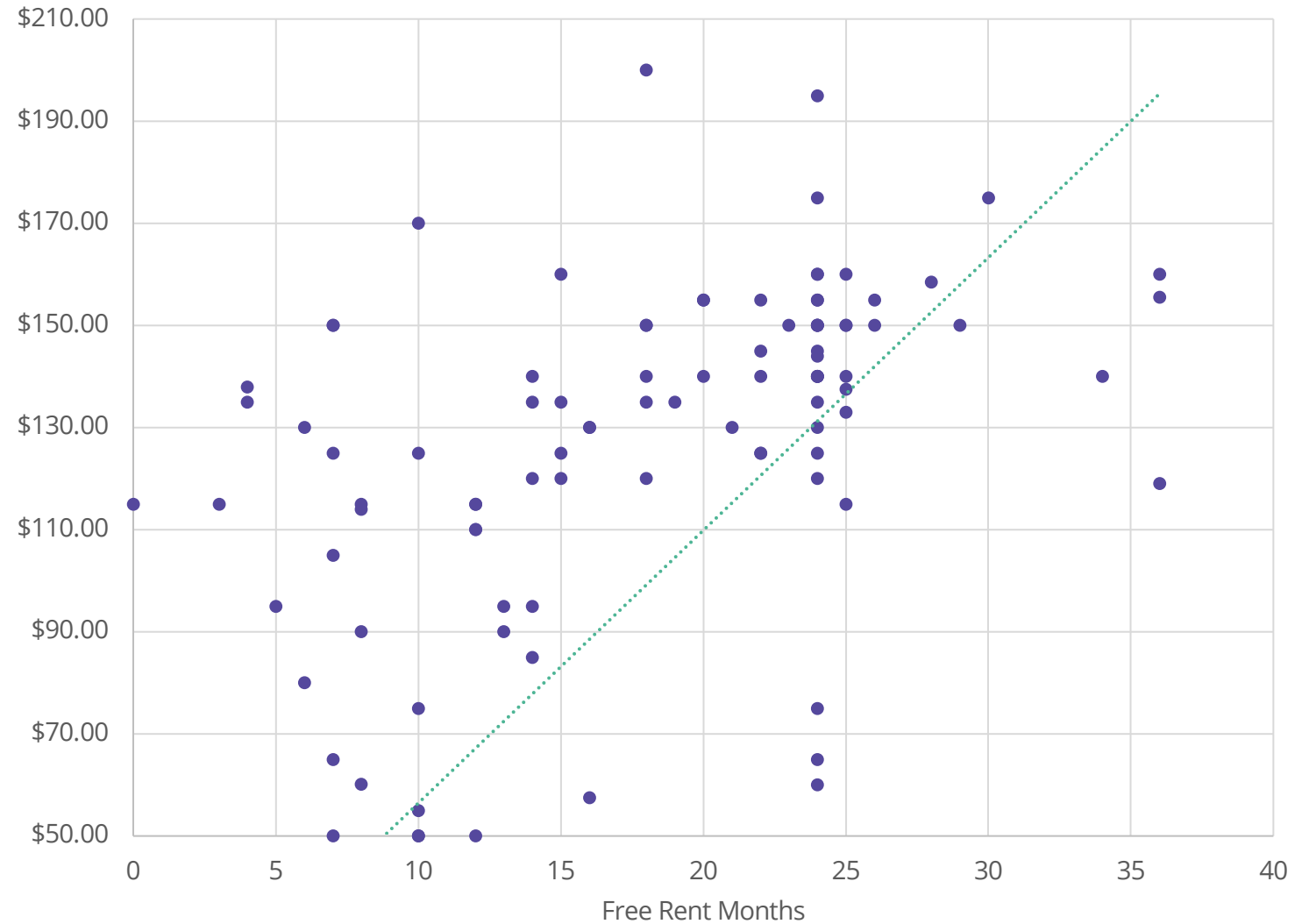
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### 2022 Concession Breakdown



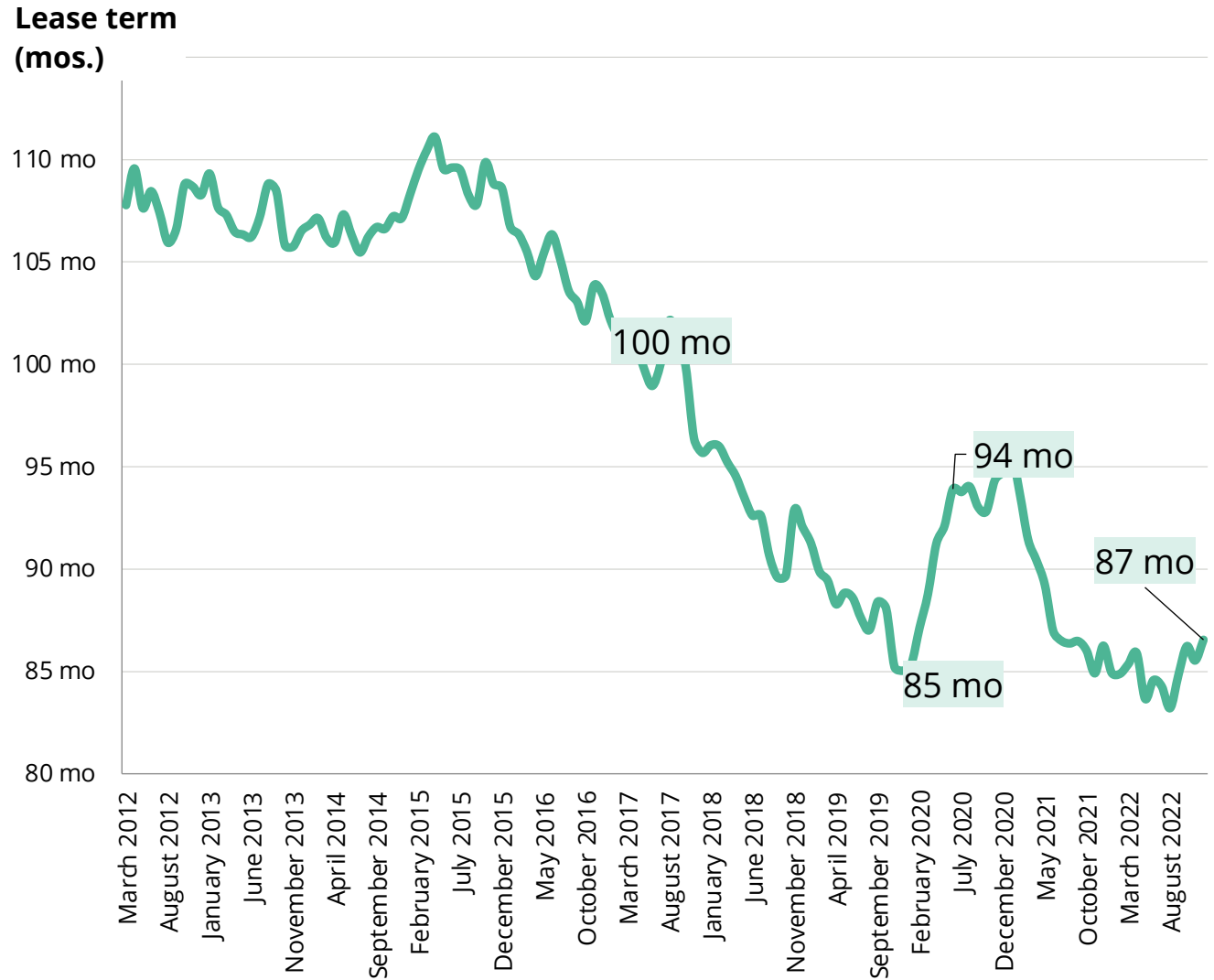
Note: Excludes subleases, expansions and renewals.  
Source: AVANT by Avison Young

# Average lease term

# 87 mos.

Current 12-month moving average lease term length.

Tenants have begun to navigate the current environment with conviction, capitalizing on more favorable lease economics and provisions while recognizing Manhattan’s lasting draw from a talent perspective. This change in sentiment has caused a rebound in lease term lengths, which increased by 7.2% from January 2021 to now.



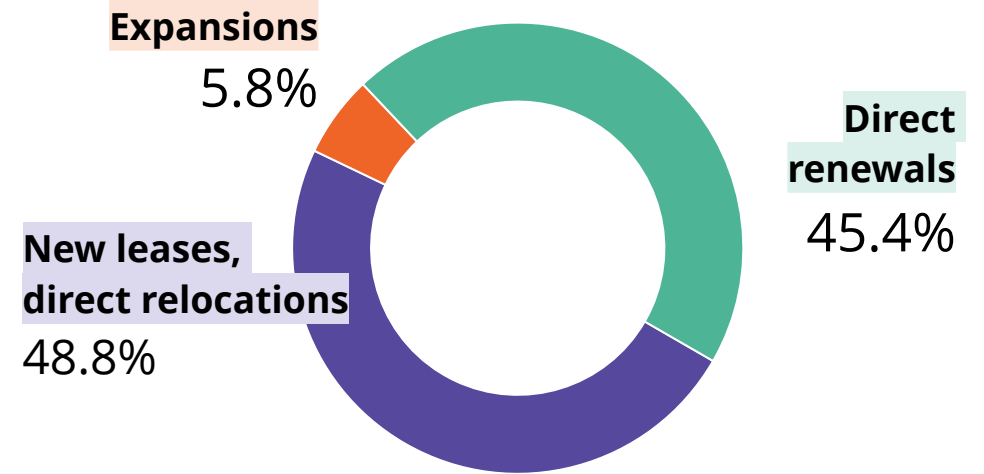
## Transaction activity by lease type

# -4.5%

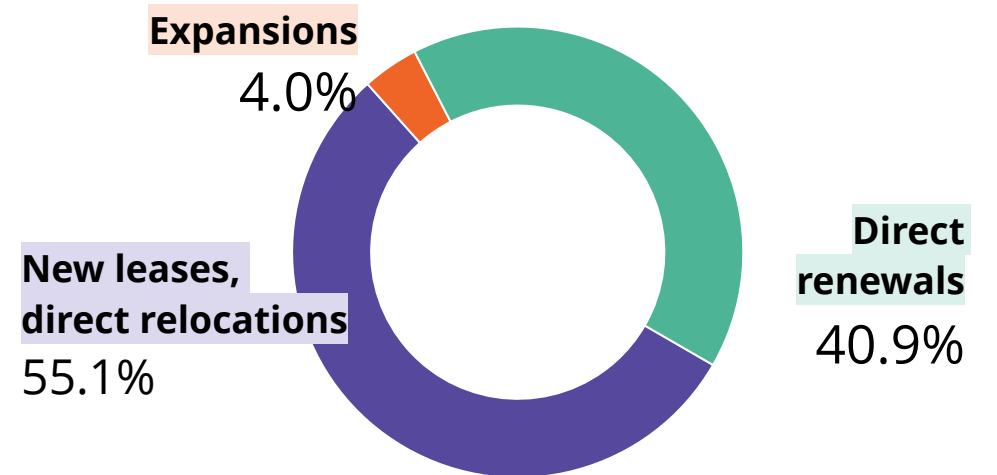
Percentage point change in renewals as a share of total leasing activity post-COVID

Renewals have not been as prevalent despite low prevailing vacancy rates. Increasing consolidations and the ability to leverage market or economic fundamentals allowed tenants to relocate or expand to higher quality space.

From 2018 through March 2020



Leasing activity post-COVID

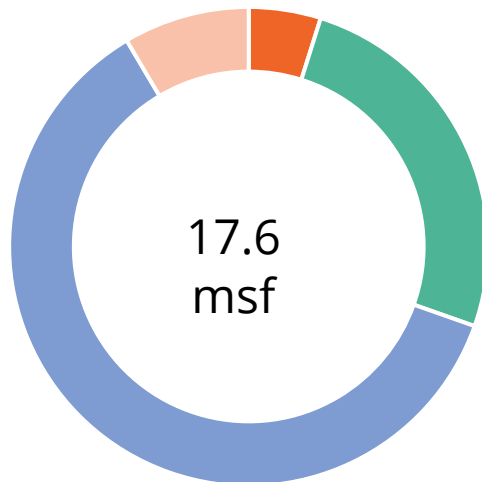


# Office large block availability

## Large Blocks (20K+) By Class

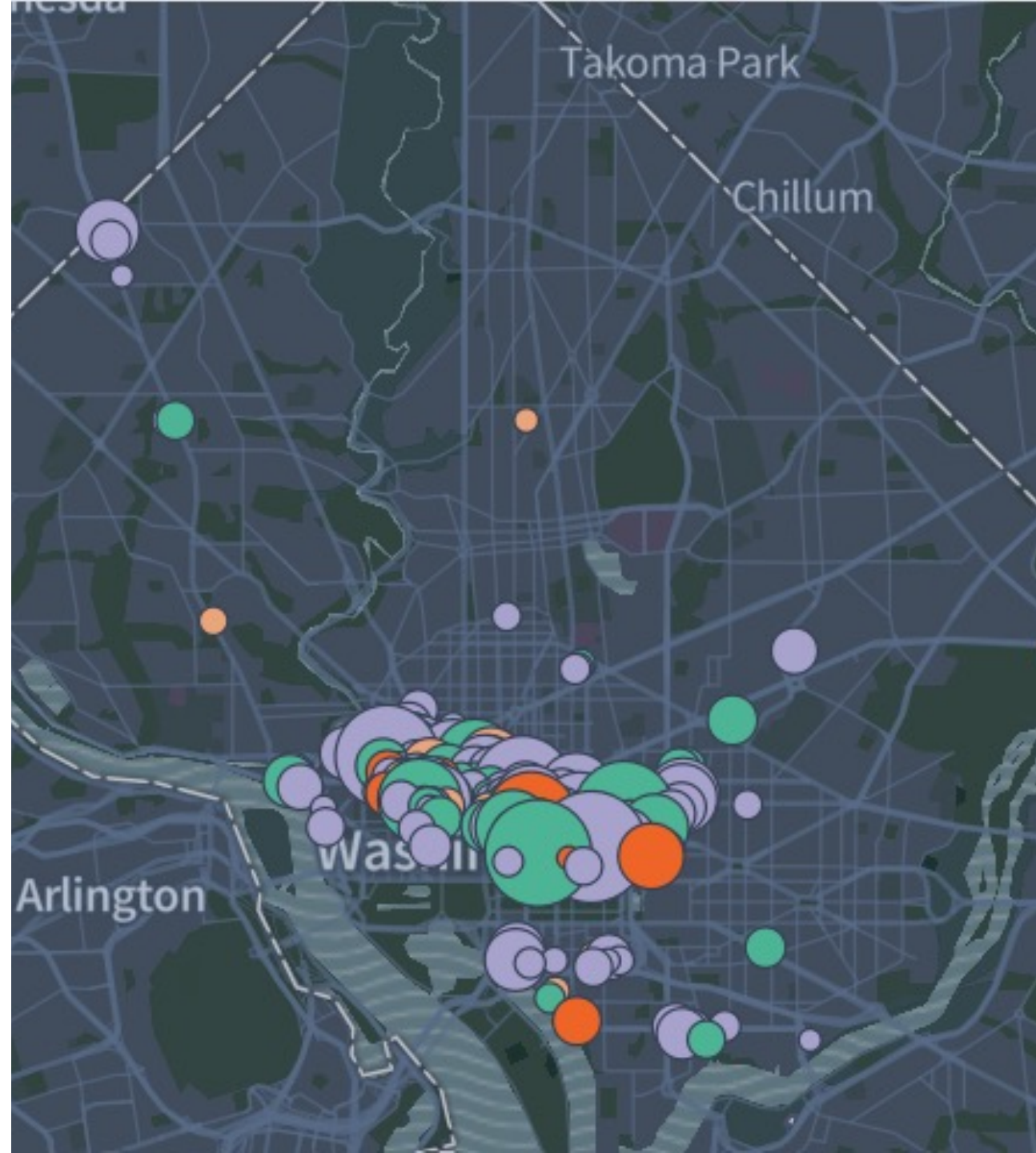
**C: 8%**  
28 blocks

**Trophy: 5%**  
16 blocks



**B: 61%**  
201 blocks

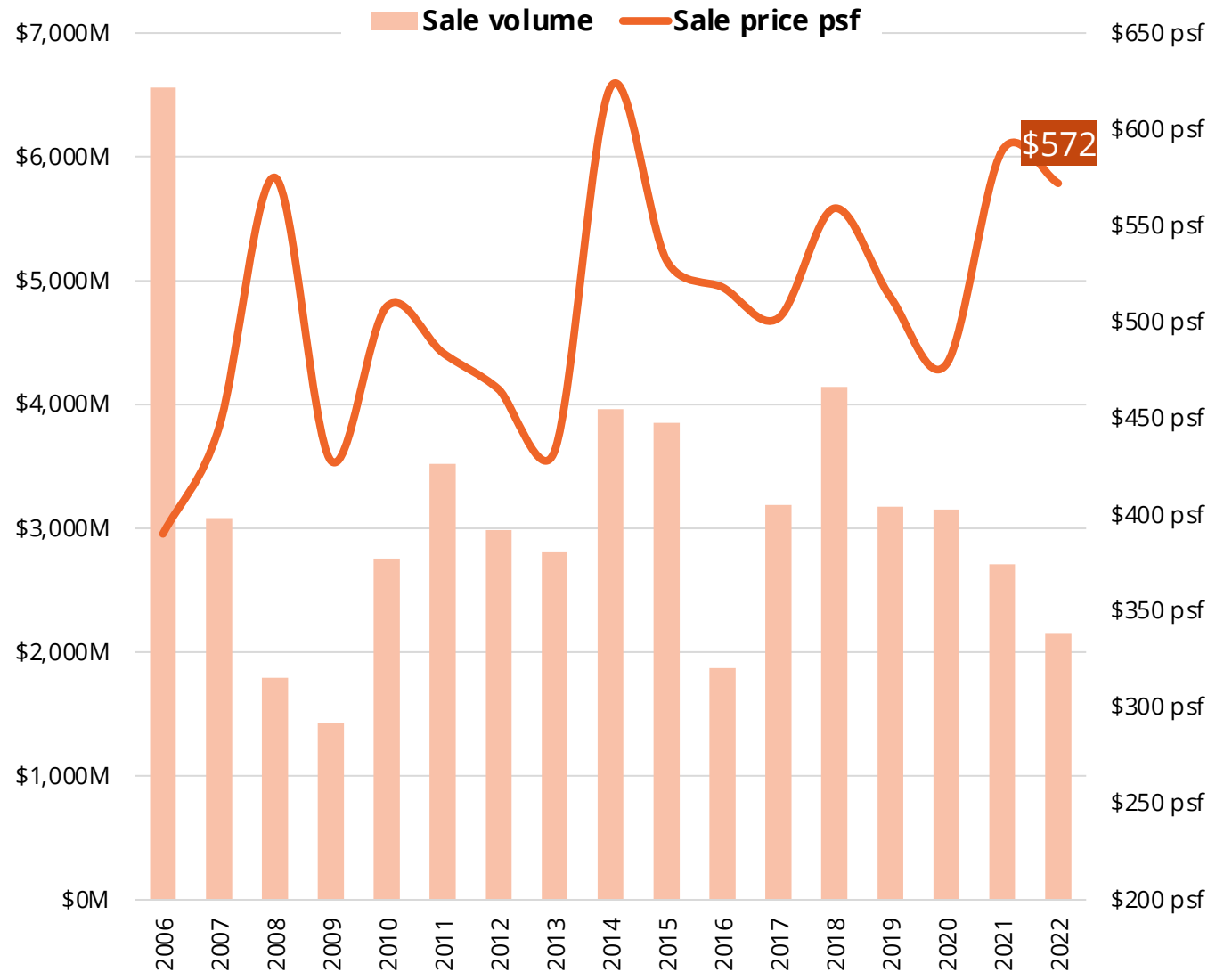
**A: 26%**  
84 blocks



# Washington, DC investment sales activity and price **\$572 psf**

Average sale price on DC office buildings in 2022. **\$2.14b** in total volume

Washington, DC has seen suppressed investment volume in the office sector since 2020, as tenants weigh their options and often opt to downsize, making underwriting an especially tough endeavor. In 2022, the two notable office investment trades were 1900 N St NW and 601 Massachusetts Ave NW, with both being purchased by foreign entities. DC has also begun to see an uptick in investment volume for conversions to residential use



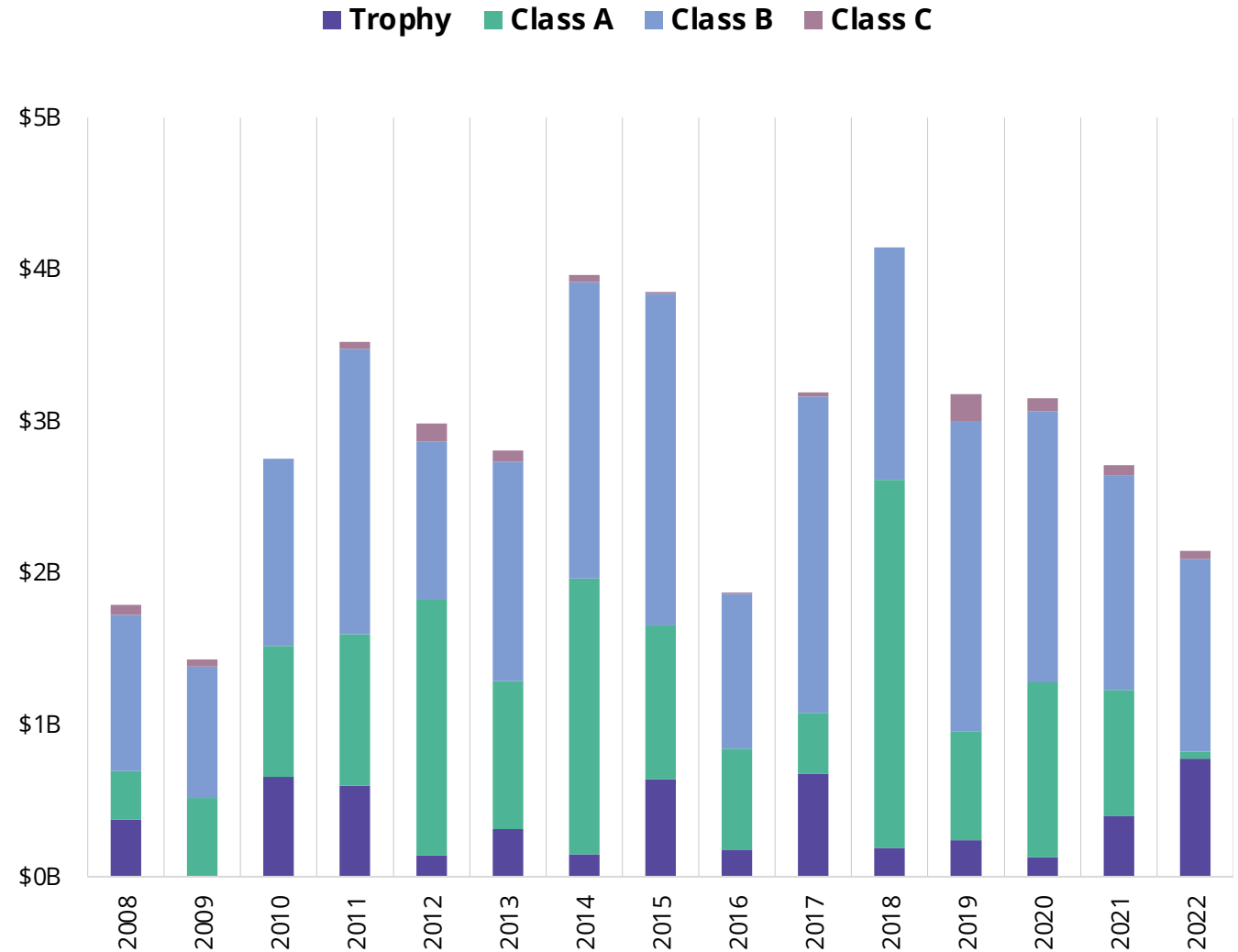
Source: AVANT by Avison Young, CoStar

# Office investment dollar volume

# \$2.14 B

## DC office dollar volume, YTD 2022

With uncertainty in leasing markets, office investors have generally favored core asset profiles as opposed to value-add asset profiles. Generally, this has resulted in more investment being concentrated in the trophy segment of the market, however DC did see some activity in the Class B segment by way of either recapitalization or sale to be converted into residential use.

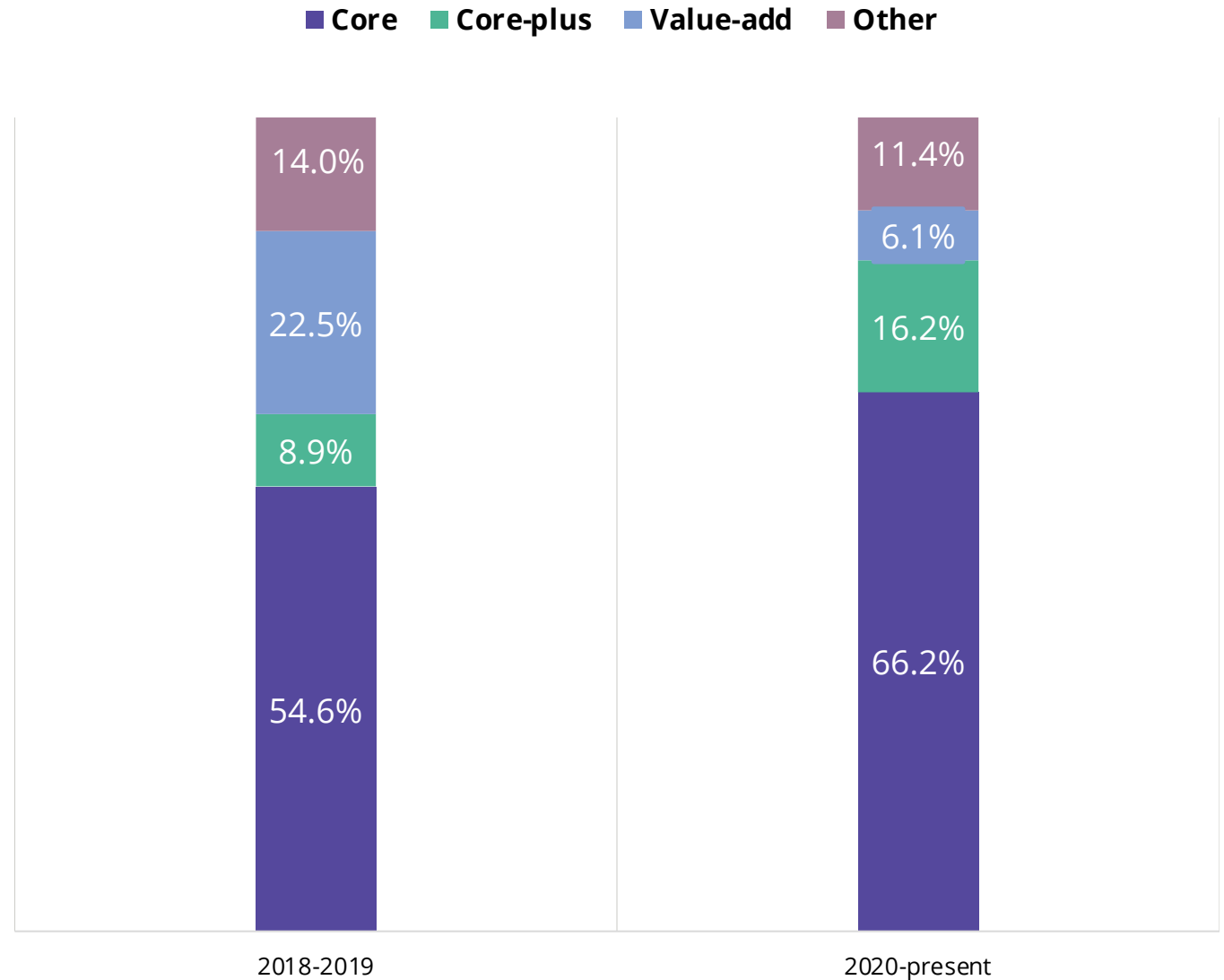


# Office investment asset profiles

# 82.4%

DC core or core plus office investments since 2020.

Transactions that fit the profile of the recently traded 601 Massachusetts Ave NW or 1900 N St NW are likely to become more prevalent as investors prioritize “safe-haven” investments over transitional opportunities. As economic uncertainty remains, look to see foreign money enter the market at a higher clip, as overseas investors look to US real estate as a hedge against inflation.





# Office development pipeline

**11 properties**

Under Construction, Renovation

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**1.78 msf**

Under Construction, Renovation

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**0.9%**

share of office inventory

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**1969**

average delivery date of DC offices

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# Washington, DC office submarket stats

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q4 2022)	Net absorption sf (YTD)	Direct asking rent FS
Capitol Hill	8,313,780	-	183,515	13.9%	1.5%	15.3%	14,850	-48,990	\$55.21
CBD	39,325,347	480,000	334,000	16.4%	2.0%	18.4%	12,707	-137,971	\$57.86
Dupont Logan Shaw	6,166,726	-	278,000	16.2%	0.2%	16.4%	65,938	257,717	\$54.08
East End	52,941,283	-	92,000	17.1%	1.1%	18.2%	-126,555	-1,048,738	\$59.84
Georgetown	2,971,316	-	-	13.1%	0.4%	13.5%	-10,771	-21,743	\$49.69
Navy Yard	4,782,590	330,000	-	14.2%	2.0%	16.3%	-43,318	167,233	\$60.21
NoMa	7,998,680	-	-	8.1%	0.0%	8.2%	15,498	-71,604	\$50.53
Northeast	2,255,919	25,446	-	18.2%	0.6%	18.8%	854	-1,755	\$37.88
Southeast - East of the River	684,166	-	891,200	0.0%	0.0%	0.0%	-	-	\$40.00
Southwest	13,350,606	638,953	-	13.9%	0.1%	14.0%	-57,621	207,162	\$52.57
Upper Northwest	5,250,132	105,200	-	12.3%	1.4%	13.7%	2,190	215	\$44.35
West End	4,670,298	-	-	12.5%	4.7%	17.2%	-28,356	-82,835	\$54.73
<b>Overall</b>	<b>148,710,843</b>	<b>1,579,599</b>	<b>1,778,715</b>	<b>15.4%</b>	<b>1.3%</b>	<b>16.7%</b>	<b>-154,584</b>	<b>-781,309</b>	<b>\$56.98</b>

# Washington, DC office market stats by class

	Existing inventory sf	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (YTD)	Direct asking rent FS
Trophy	10,249,525	554,000	15.2%	0.5%	15.7%	498,141	\$84.25
Class A	34,055,318	851,515	14.4%	1.7%	16.0%	16,366	\$69.79
Class B	92,638,443	373,200	15.9%	1.3%	17.2%	-1,122,725	\$54.62
Class C	11,767,557	-	14.6%	0.8%	15.4%	-73,091	\$41.68
<b>Market total</b>	<b>148,710,843</b>	<b>1,778,715</b>	<b>15.4%</b>	<b>1.3%</b>	<b>16.7%</b>	<b>-781,309</b>	<b>\$56.98</b>



# Washington, DC submarket map



# Office insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

## Vitality Index

- **Visitor volumes:** based on extrapolated, anonymized cell phone pings provided by Orbital Insight at custom, geofenced locations, the Vitality Index tracks visitor volumes at representative areas of interest across markets and property types

# Explore our latest data and insights



## Putting people and the planet first

There is a vital role for our sector to create healthy, productive workplaces for employees, cities that are centers of prosperity for their citizens, and built spaces and places that create a net benefit to the economy, the environment and the community.

**Global ESG Report**



## The return of people and places

Companies across North America continue to grapple with uncertainty. What will the future of work look like? Are downtowns regaining their pre-pandemic vitality? How will societal, cultural and environmental shifts shape the next normal?

**The Vitality Index**



## Tracking U.S. employment trends

Rising layoffs and declining job postings are also indicating that the economy is becoming distressed. Employment data and industries are analyzed across cycles for a real-time and historical look at economic conditions.

**U.S. Employment Overview**

For more market insights and  
information visit **avisonyoung.com**

**Alex Ern**

Mid-Atlantic Lead  
Insight & Innovation Advisory  
Alex.ern@avisonyoung.com

**Ethan Binnix**

Analyst  
Insight & Innovation Advisory  
Ethan.binnix@avisonyoung.com