



Washington, DC office market report

Q3 2023

**AVISON
YOUNG**

Washington, DC Office Market Trends

\$545mm

Investment Volume YTD 2023

A continuation of themes from previous quarters in 2023, DC has continued to see suppressed investment in office buildings. DC has recorded just one sale over \$100mm this year, and it comes in the form of a ground lease being purchased by Stonebridge and Rockefeller from WMATA. The remainder of the investment volume comes in the form of opportunistic investments that will likely materialize as some sort of change in use, most notably office to residential.

11.5%

Vacancy in Trophy Buildings

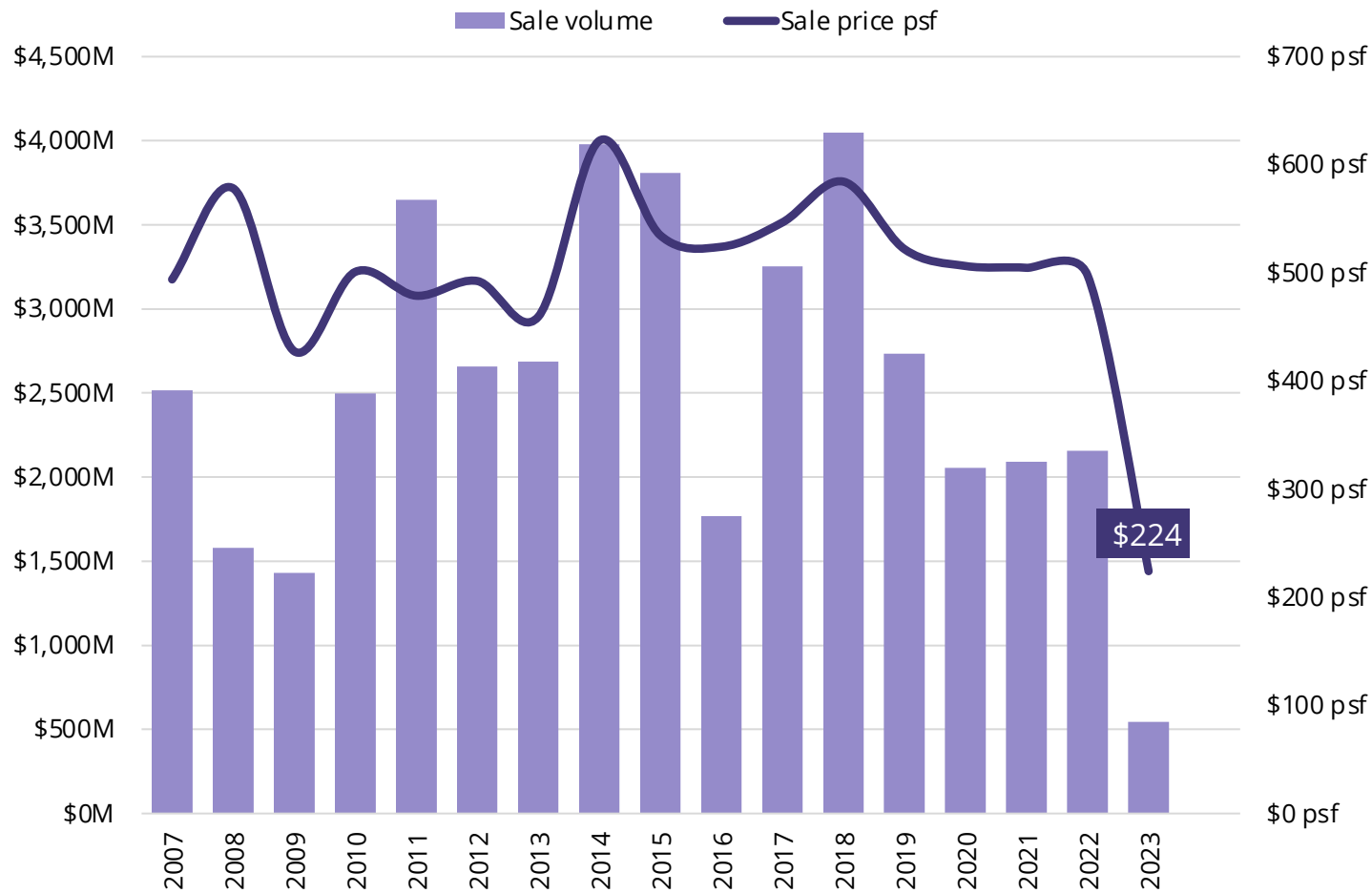
While the broader office market remains in a state of disarray, there are glimmers of hope. Trophy office, specifically new construction, has continued to outperform its peers. This segment of the market is the only class of DC office to see any sort of rent growth in recent quarters, as supply has tightened and options for prospective tenants continue to dwindle. One thing to note is with pending leases, this number is poised to drop.

\$2.1B

CMBS debt set to mature before 2030 collateralized by office assets

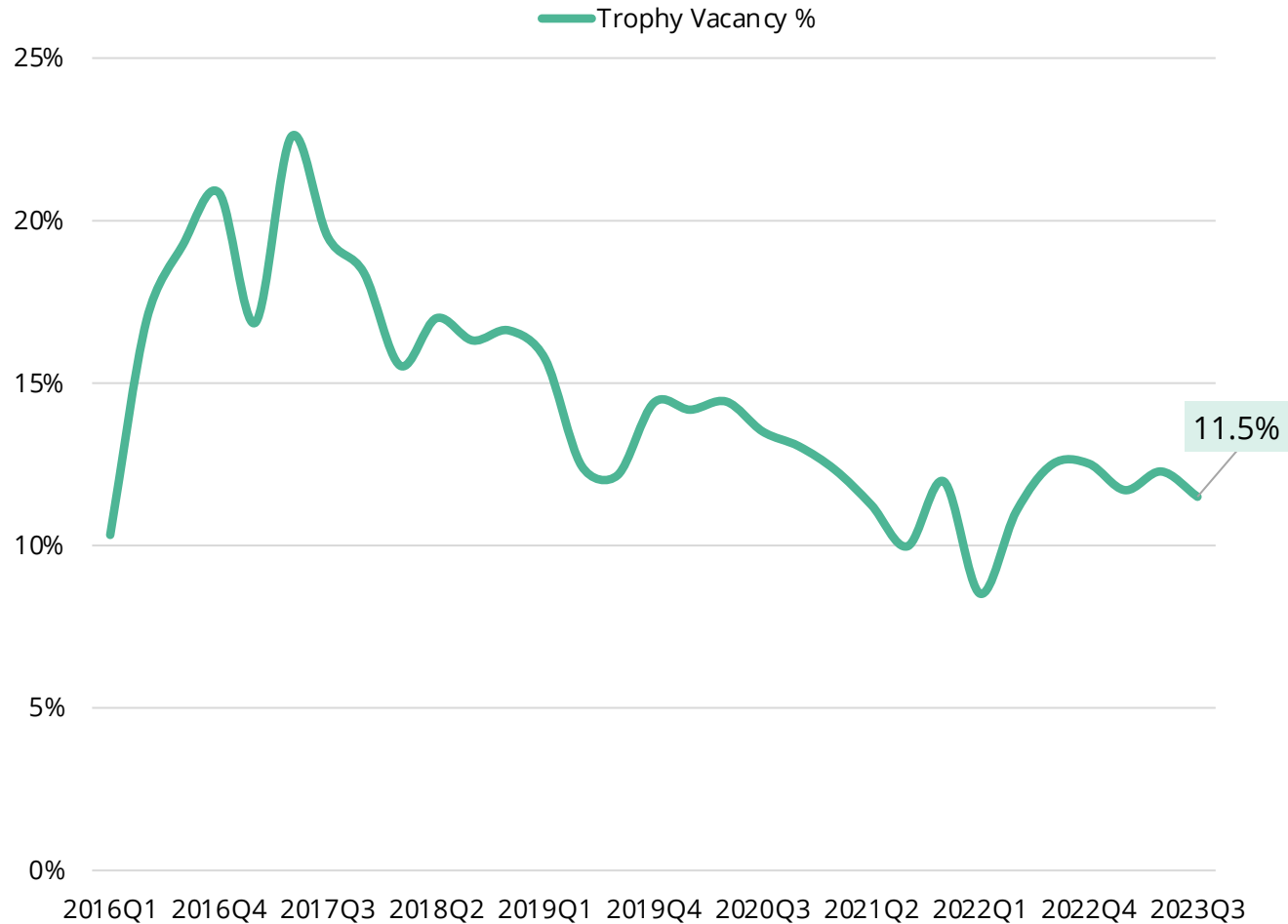
Between 2024 and 2030, over \$2.1 Billion of CMBS debt is set to mature that is collateralized by office assets. With the deterioration of the underlying collateral, it will be interesting to monitor how investors decide to face upcoming debt maturities. With higher interest rates and the future of office utilization and underwriting unclear, this phenomenon will result in a correction in the office market. However, this wall of maturing debt will drive increased investment activity as owners will be forced to either refinance or sell their assets.

Sales Volume & Price per Square Foot



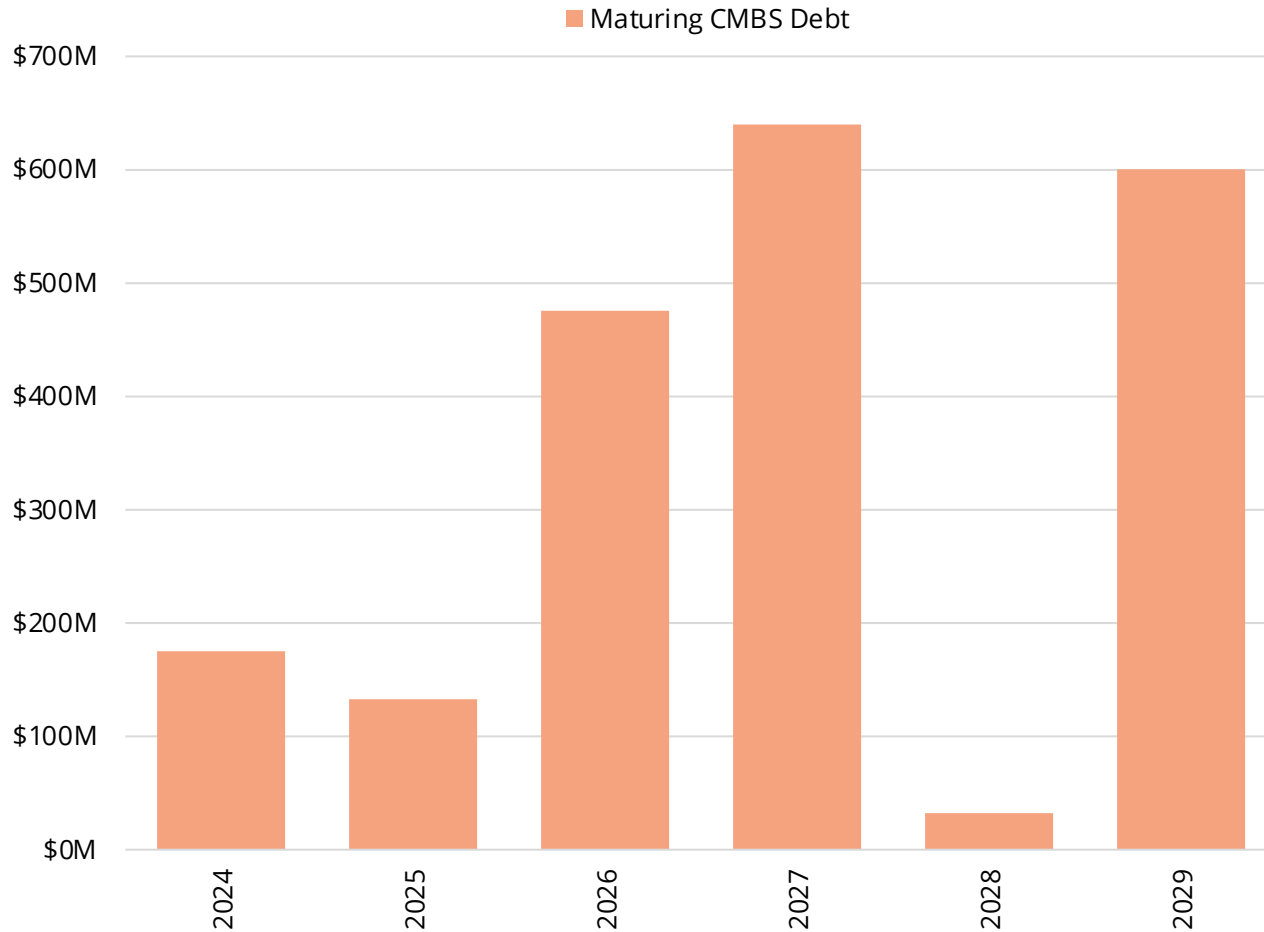
DC is on pace to register its lowest aggregate office investment volume in over 20 years.

Trophy Vacancy



The trophy segment of the market is continuing to show signs of tightening, and with the development pipeline for all intents and purposes shut off, this will continue.

Maturing CMBS Debt



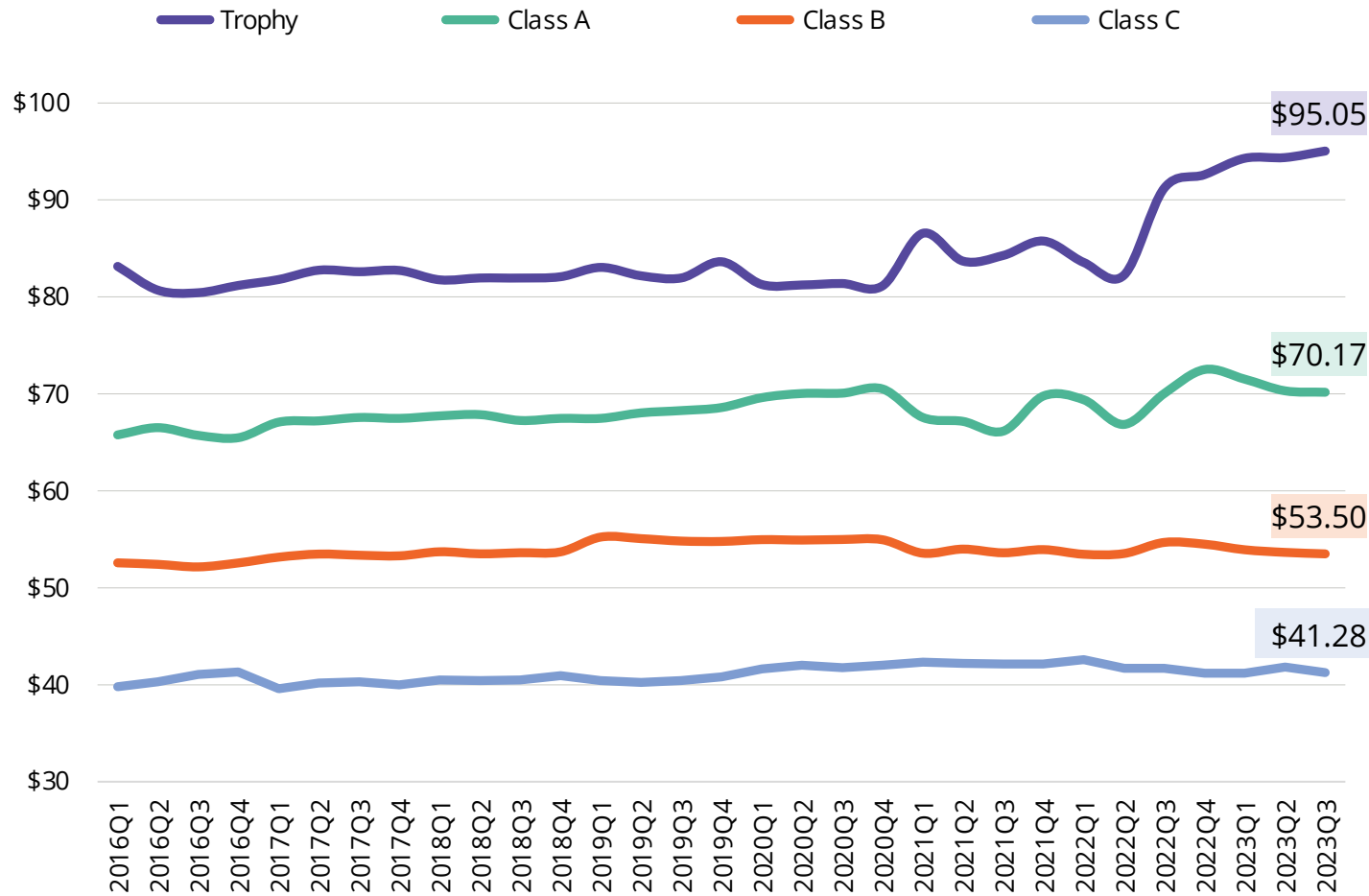
In an elevated interest rate environment where the cost of capital has increased exponentially, owners of office buildings with maturing debt will be forced to make a decision between putting additional equity into their buildings or working out a solution with the lending entity.

Occupier trends

Let's examine more prevailing office trends.

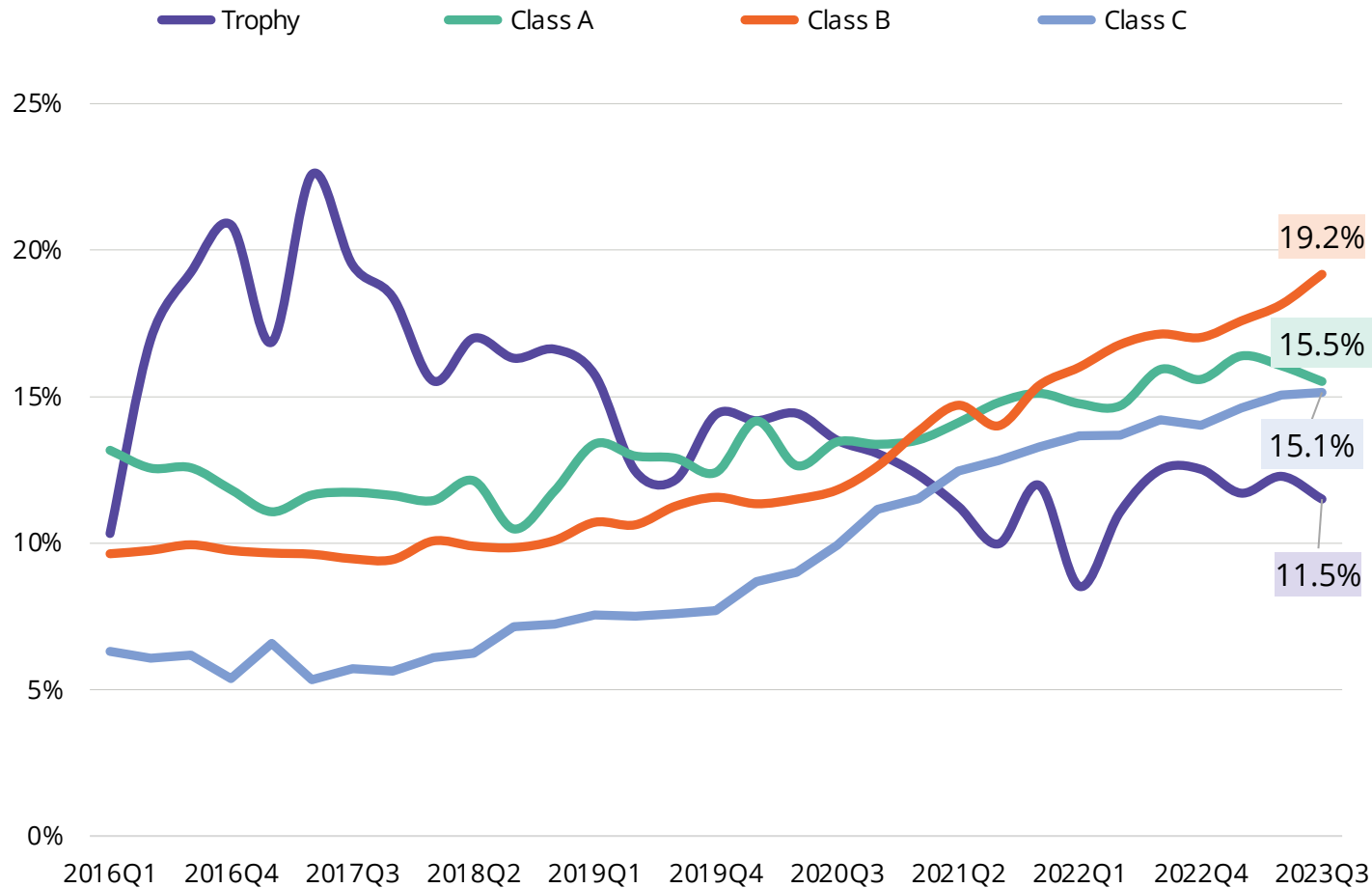


Average Asking Rent FS by Class



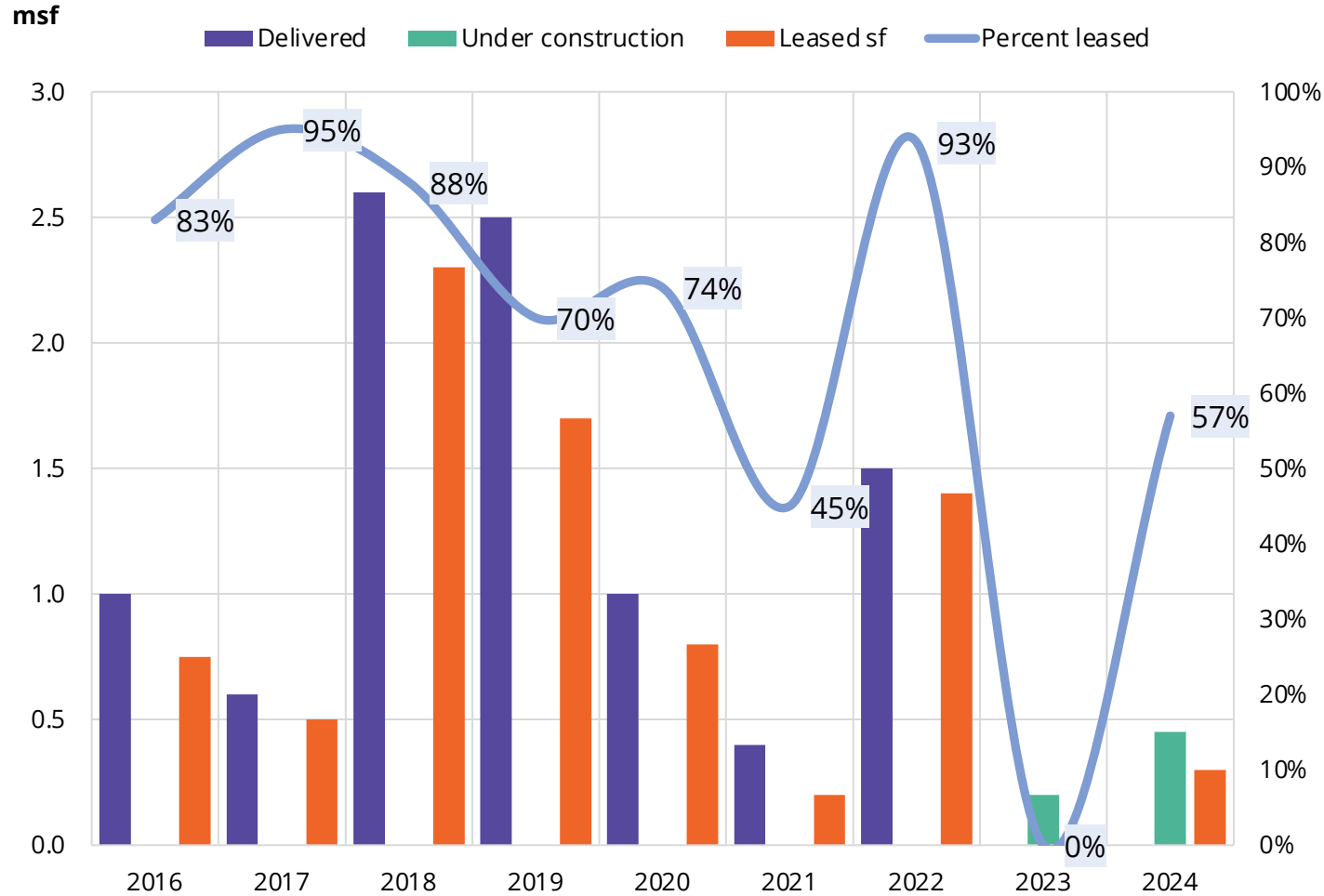
With the flight to quality trend enhancing demand in the higher quality segments of the market, the trophy segment is the only one to experience real asking rent growth over recent quarters.

Vacancy by Class



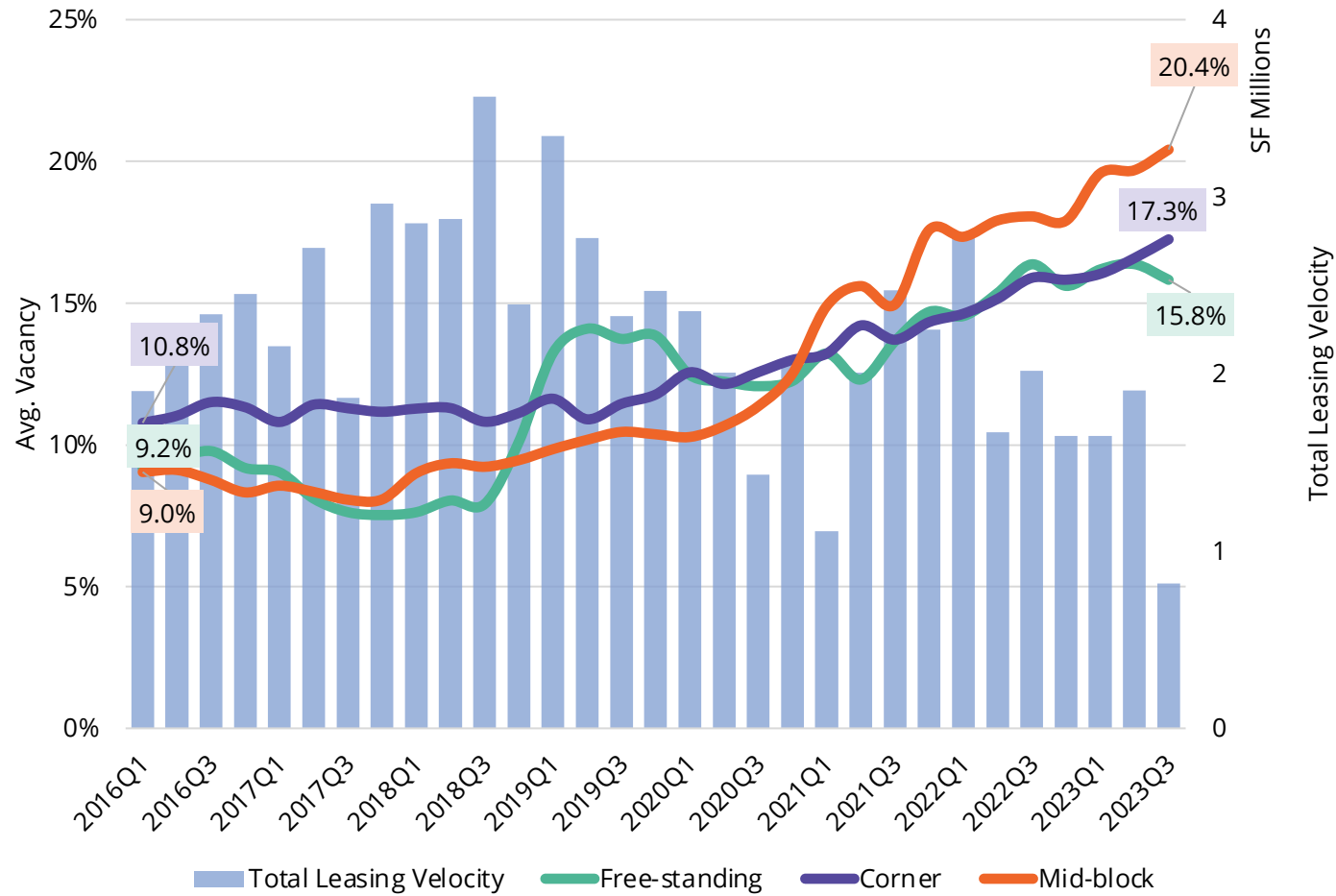
An exhibit of flight to quality, buildings in the Trophy and class A segments of the market are continuing to outperform the commodity segments of the market.

New Construction



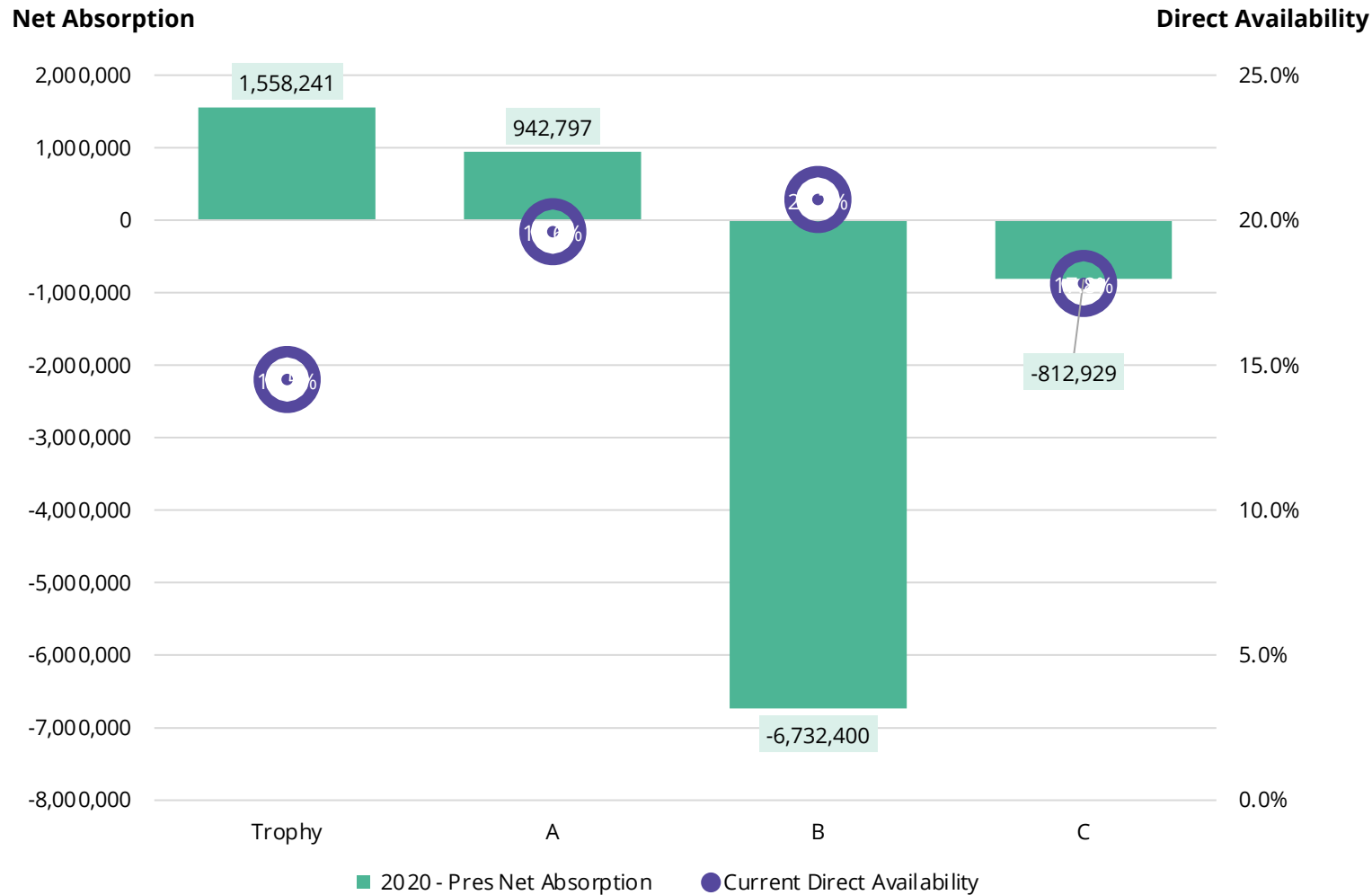
New construction in DC continues to outperform the remainder of the market, and with pending leases, this segment of the market will continue to tighten.

Vacancy by Block Location



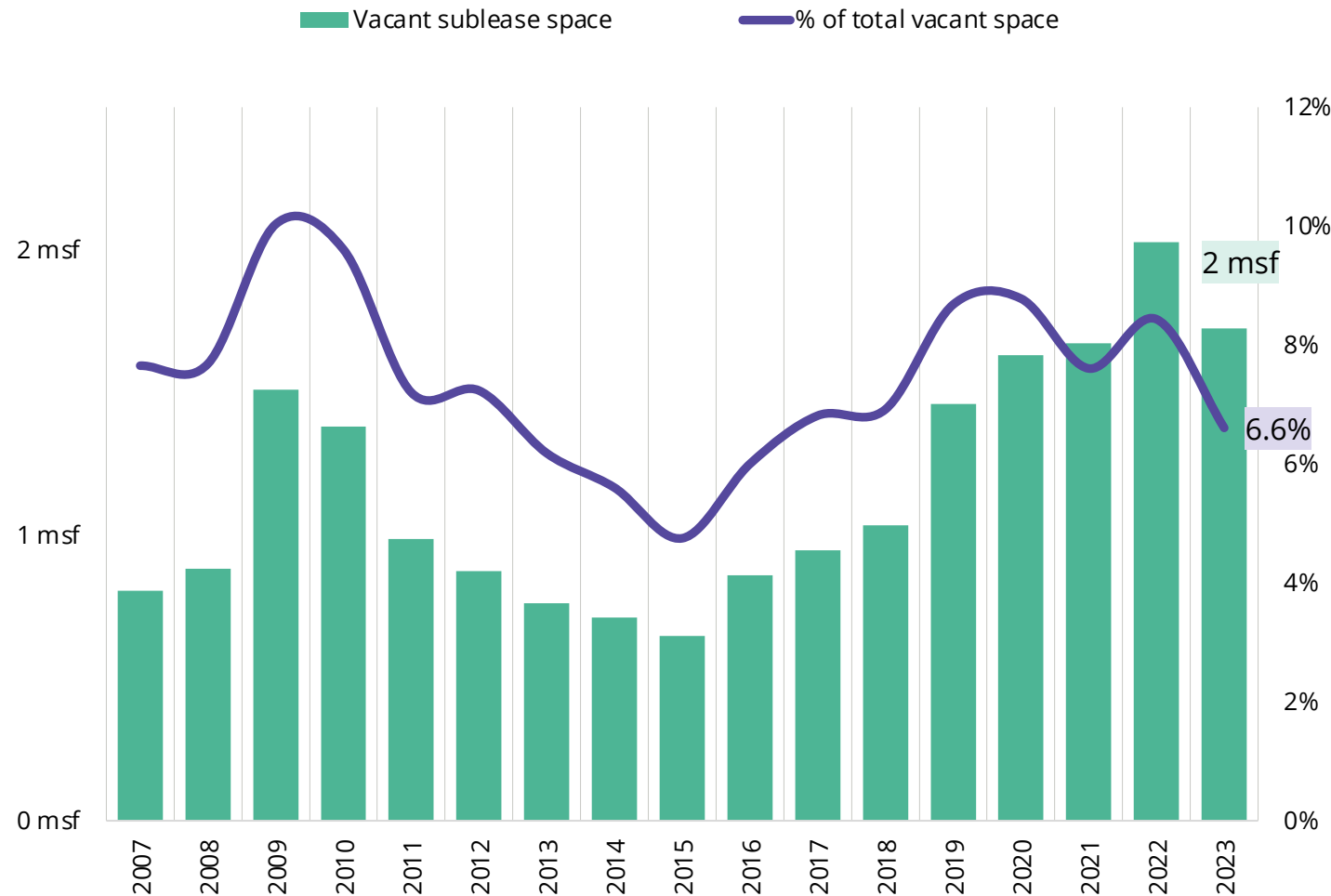
Buildings that offer more natural light and easier accessibility have outperformed mid-block buildings in 2023.

Absorption and Direct Availability by Class



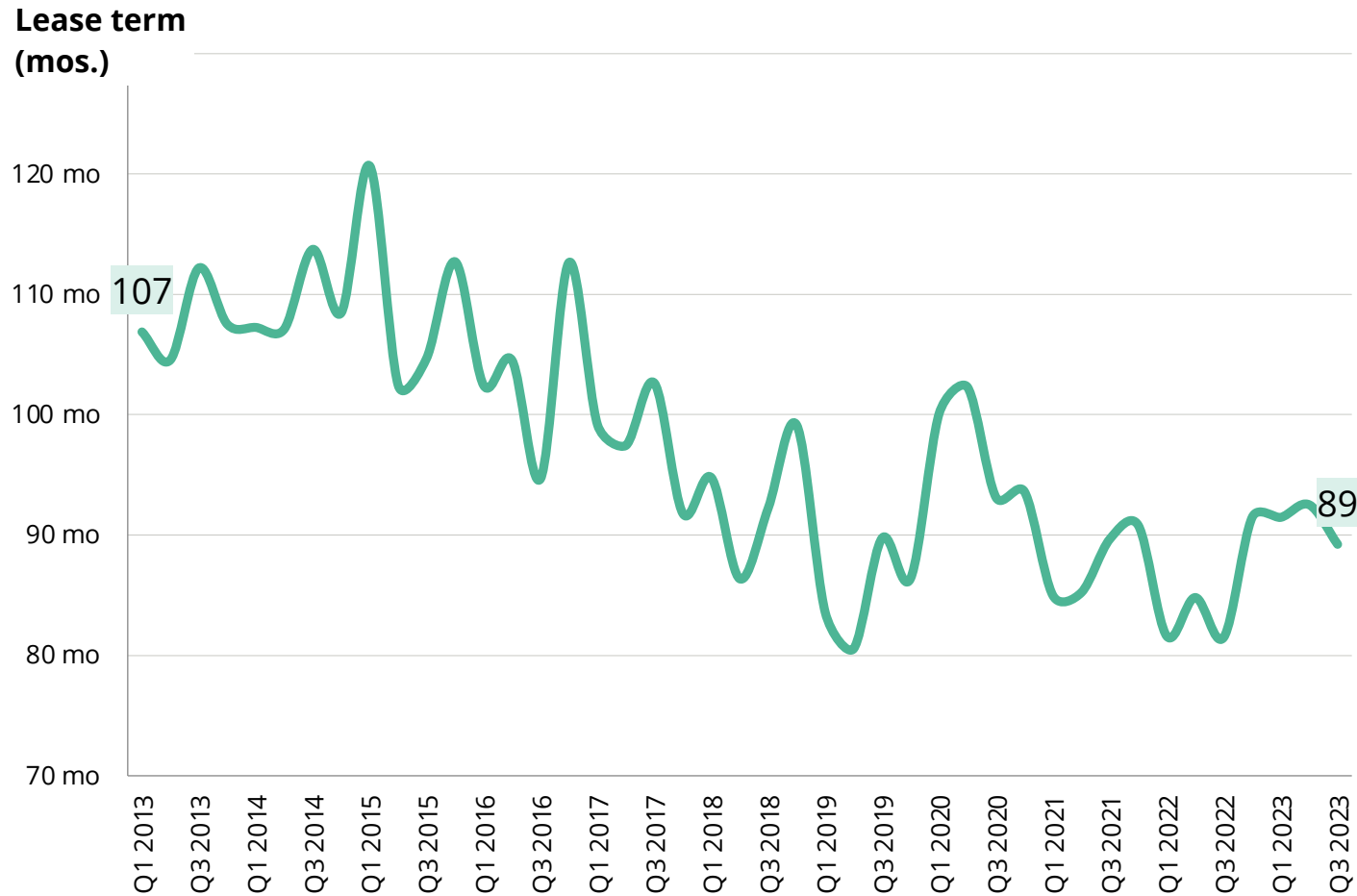
An indication of flight to quality resides in net absorption, segmented by class since 2020.

Available Sublease Space



Tenants with distant lease expirations have been forced to take to the sublease market in order to dispose of unneeded space, but the share of total vacancy attributable to sublet space is showing signs of tapering off.

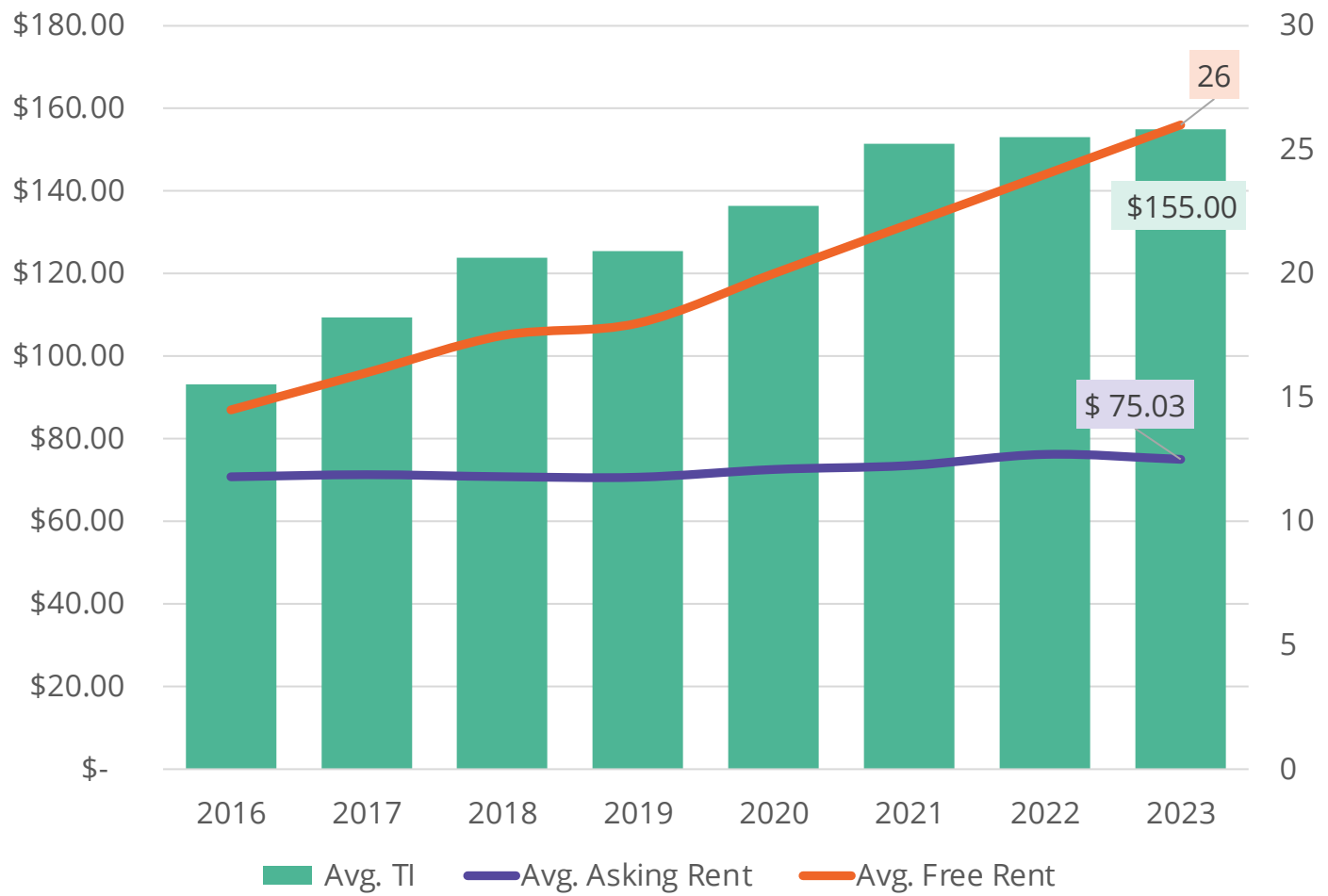
Average term Length



As flexibility has continued to be a preferred component of tenants leasing space, average term length has trended at a shorter period than historical norms.

Recent upticks in average term length are a function of flight to quality and where activity is happening in the market.

Asking Rents vs. Concessions (Trophy & Class A)

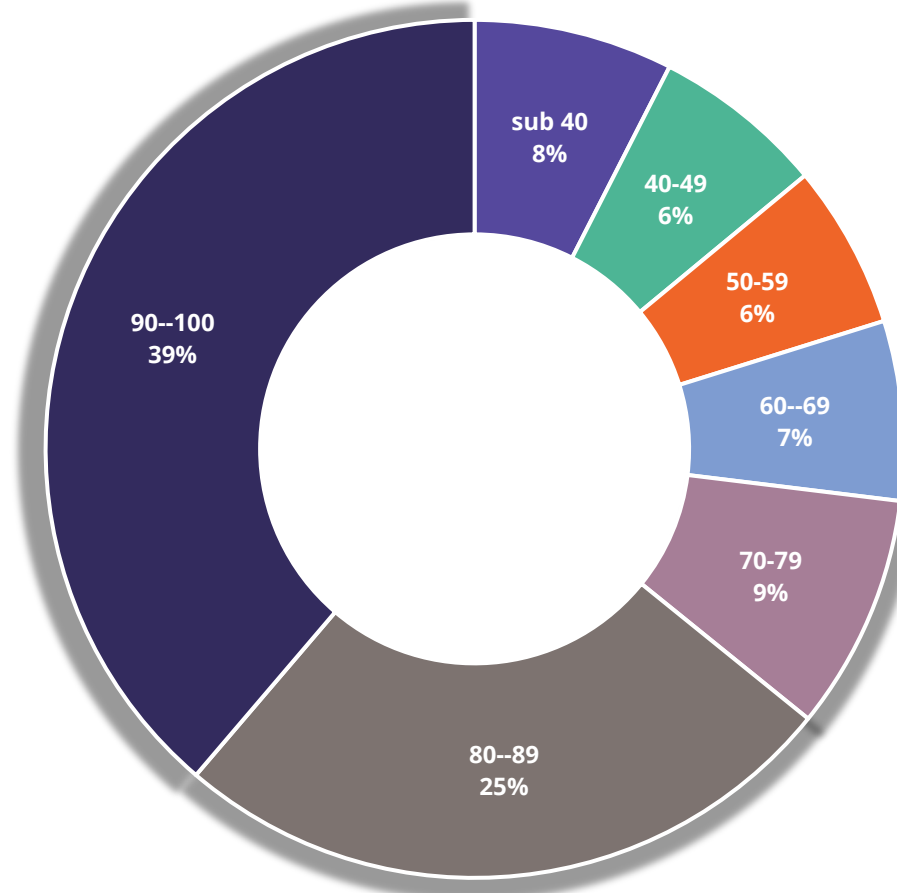


Even in the upper segments of the market, rents have remained relatively stagnant while concessions have continued to increase, resulting in falling net effective rents.

Recent tightening in the trophy segment of the market has caused concessions to taper off.

Source: AVANT by Avison Young
 Note: concessions inclusive of only direct relocations >20k rsf, concessions normalized for a 10-yr term

Flight to Quality (2021-2023 YTD)



■ sub 40 ■ 40-49 ■ 50-59 ■ 60-69 ■ 70-79 ■ 80-89 ■ 90-100

Since 2021 in Washington, DC, office leasing has been concentrated at the top of the market. Avison Young has developed a proprietary scoring model, that assigns buildings a score based on –

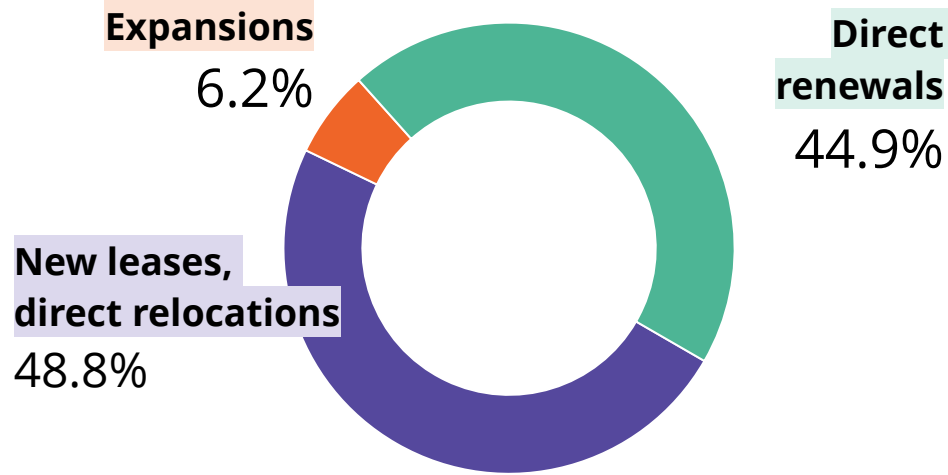
- Rent
- Year Built
- Presence of a Conference Center
- Presence of a Tenant Lounge
- Presence of a Roof Terrace
- Presence of a Private Terrace

Based on the scoring output of the model, the top third of the market is responsible for roughly 73% of leasing since 2021. This includes all transaction types (ie New leases and renewals)

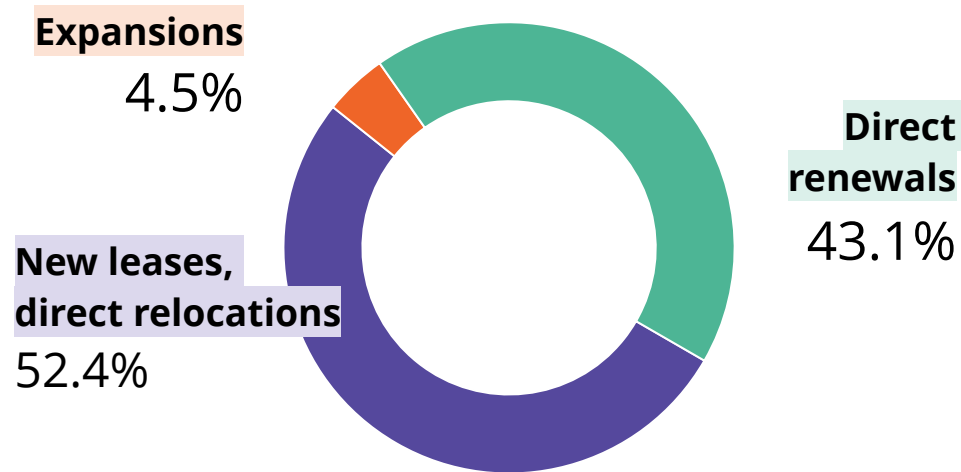
Note, the scoring outputs are uniformly distributed i.e. if there are 10 properties, one is going to be 100%, one is 90%, one is 80%, etc.

Relocations vs. Renewals (by SF Leased)

2018 - 2020



2020 - Pres



In a post-pandemic world, tenants are taking advantage of record high concessions to increase their building quality, while often reducing their footprints.

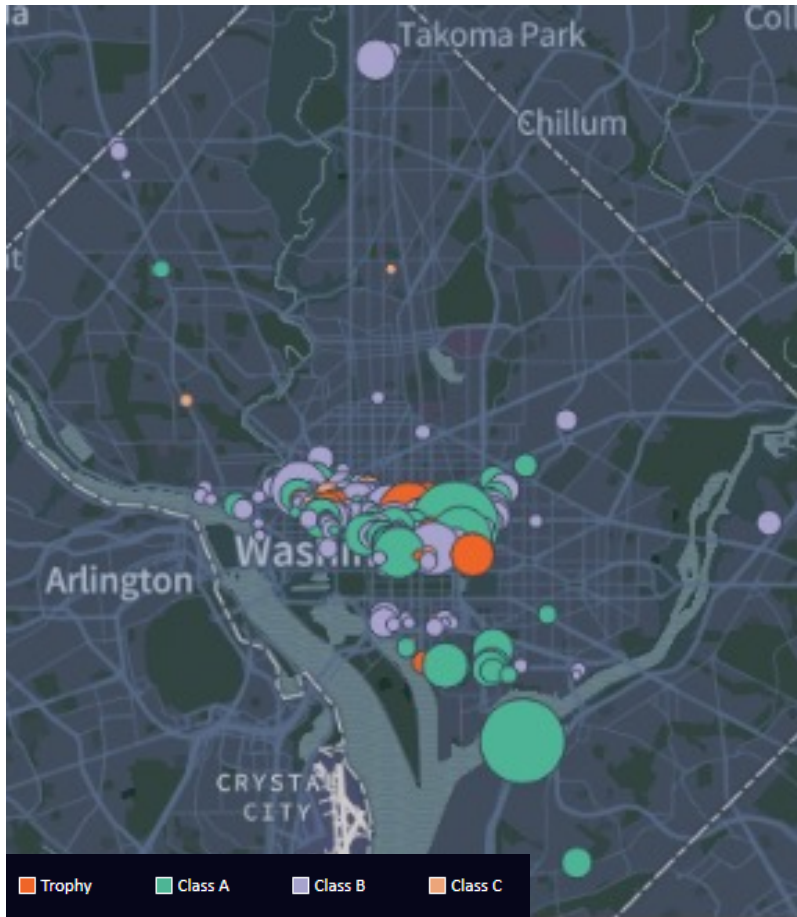
However, recent tightening in the trophy segment of the market has driven increased renewal activity.

Lease Expirations

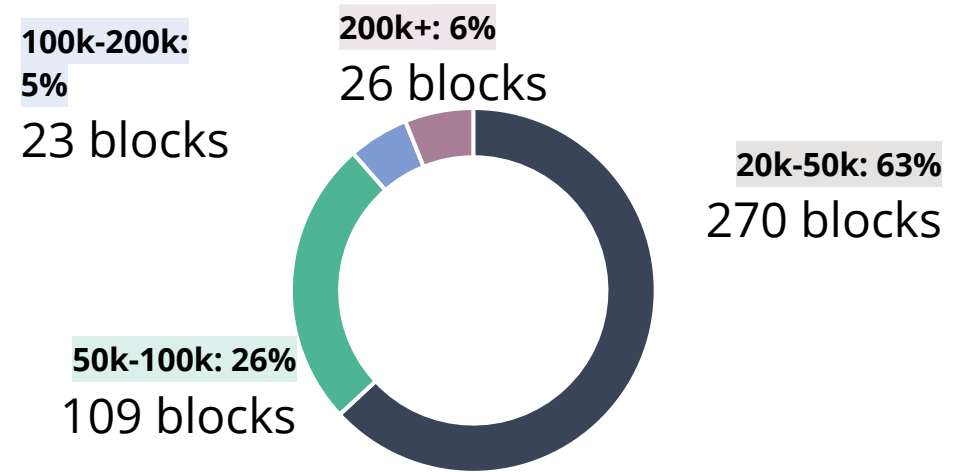


DC has over 6 million sf per year of expiring leases until 2029, most of which is in the Class B segment of the market.

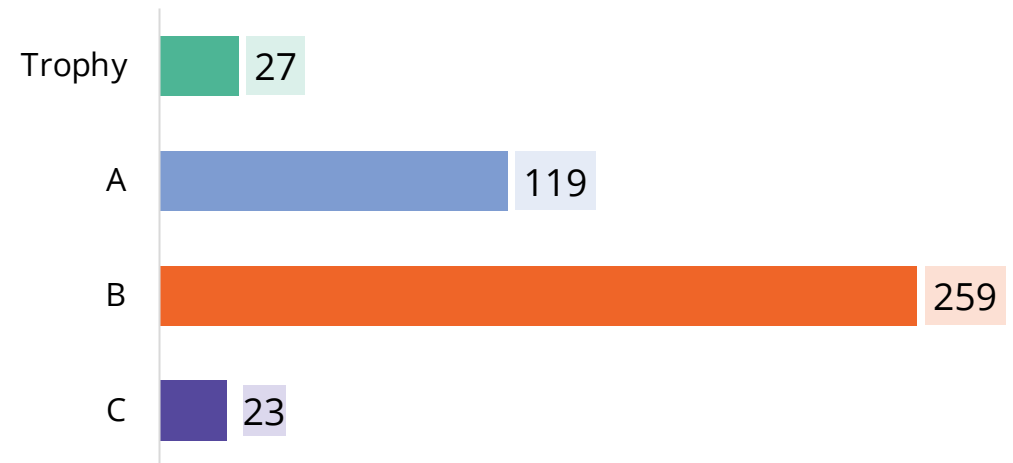
Office Large-Block Availabilities



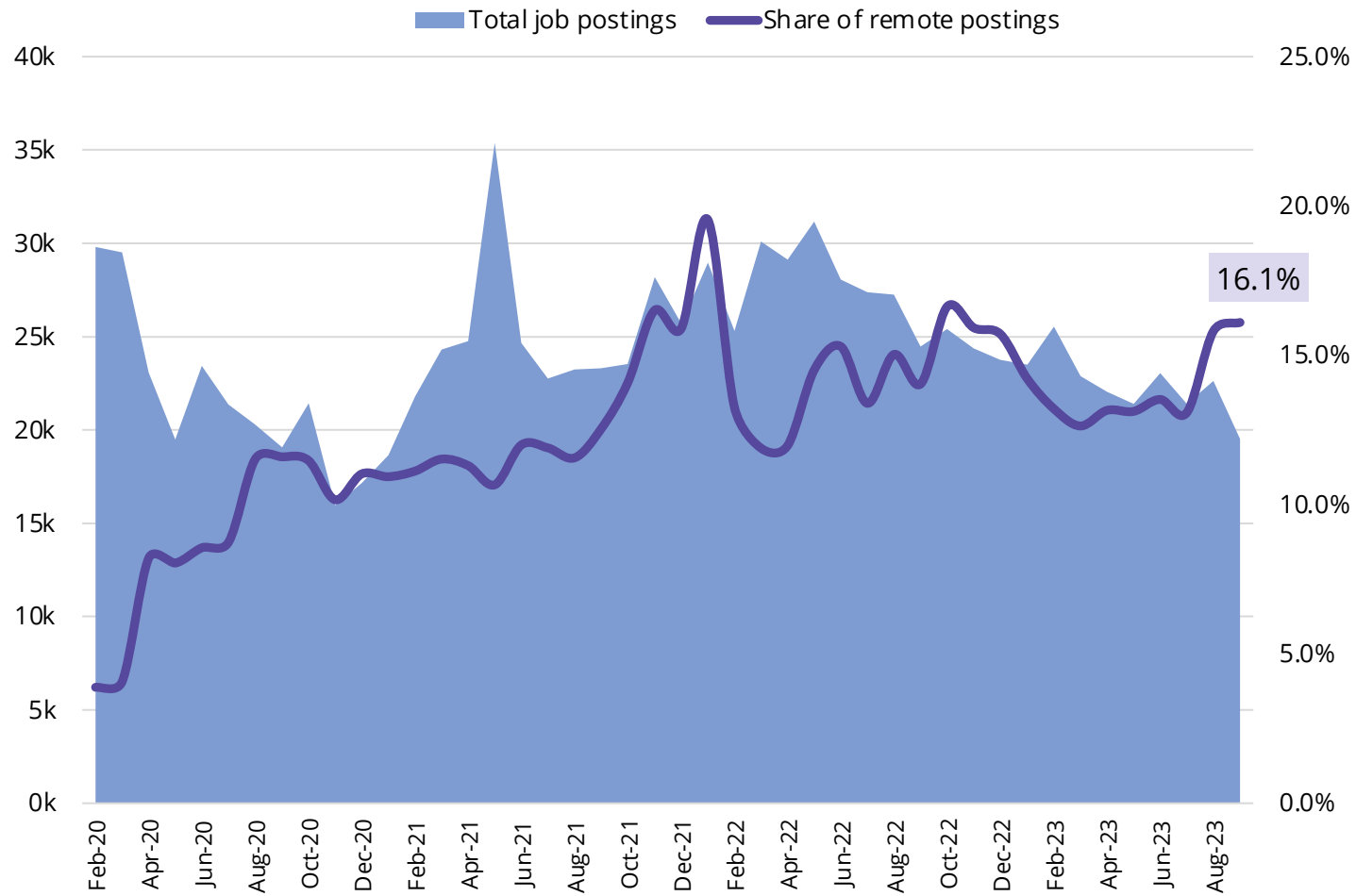
Large-block space size ranges



Large blocks available by Class



Office Job Postings



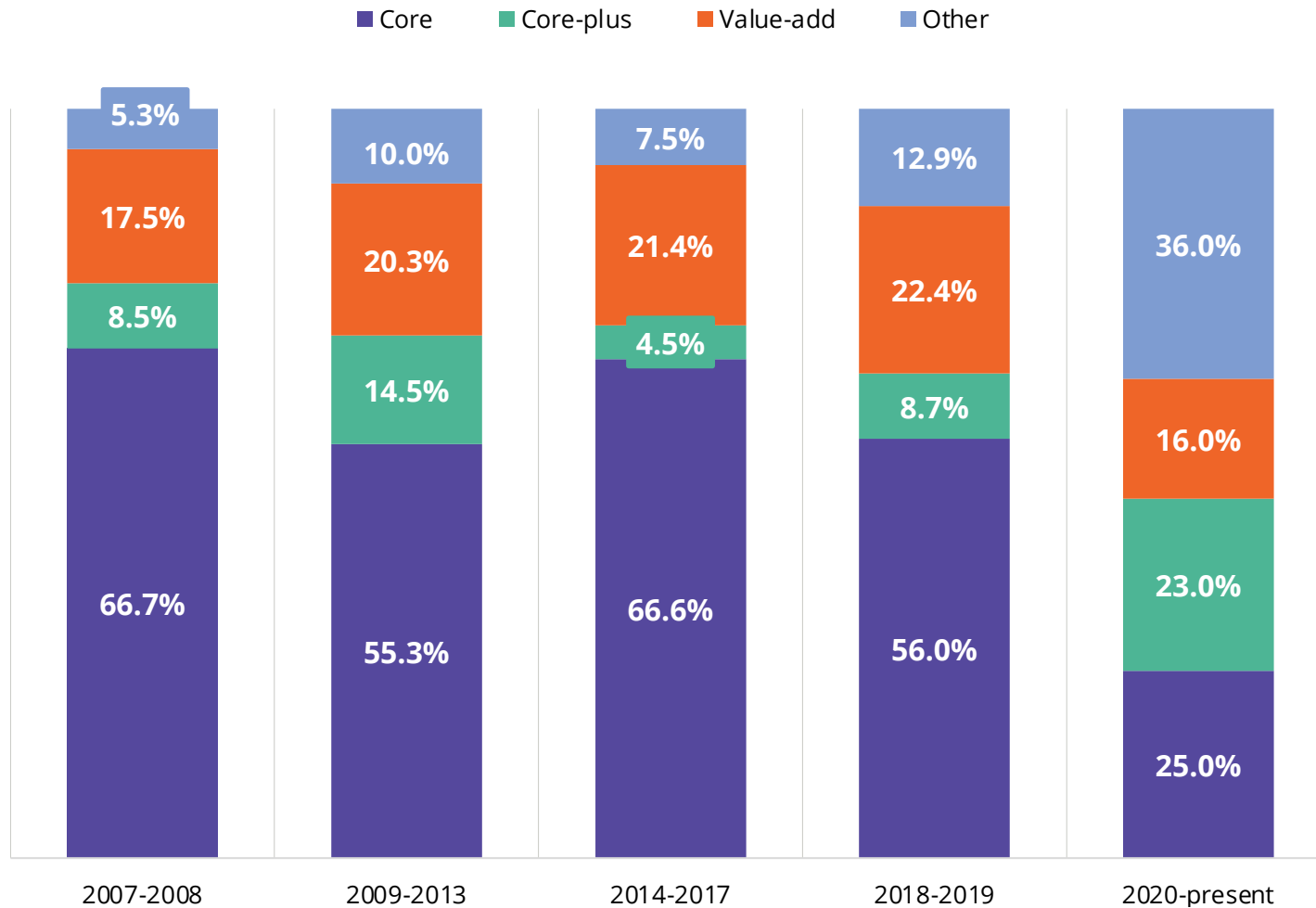
While DC has recovered most of the office using jobs it lost as a result of the pandemic, the share of remote postings continues to sit at double digits and has increased in recent months.

Capital markets trends

Let's examine more investment trends.

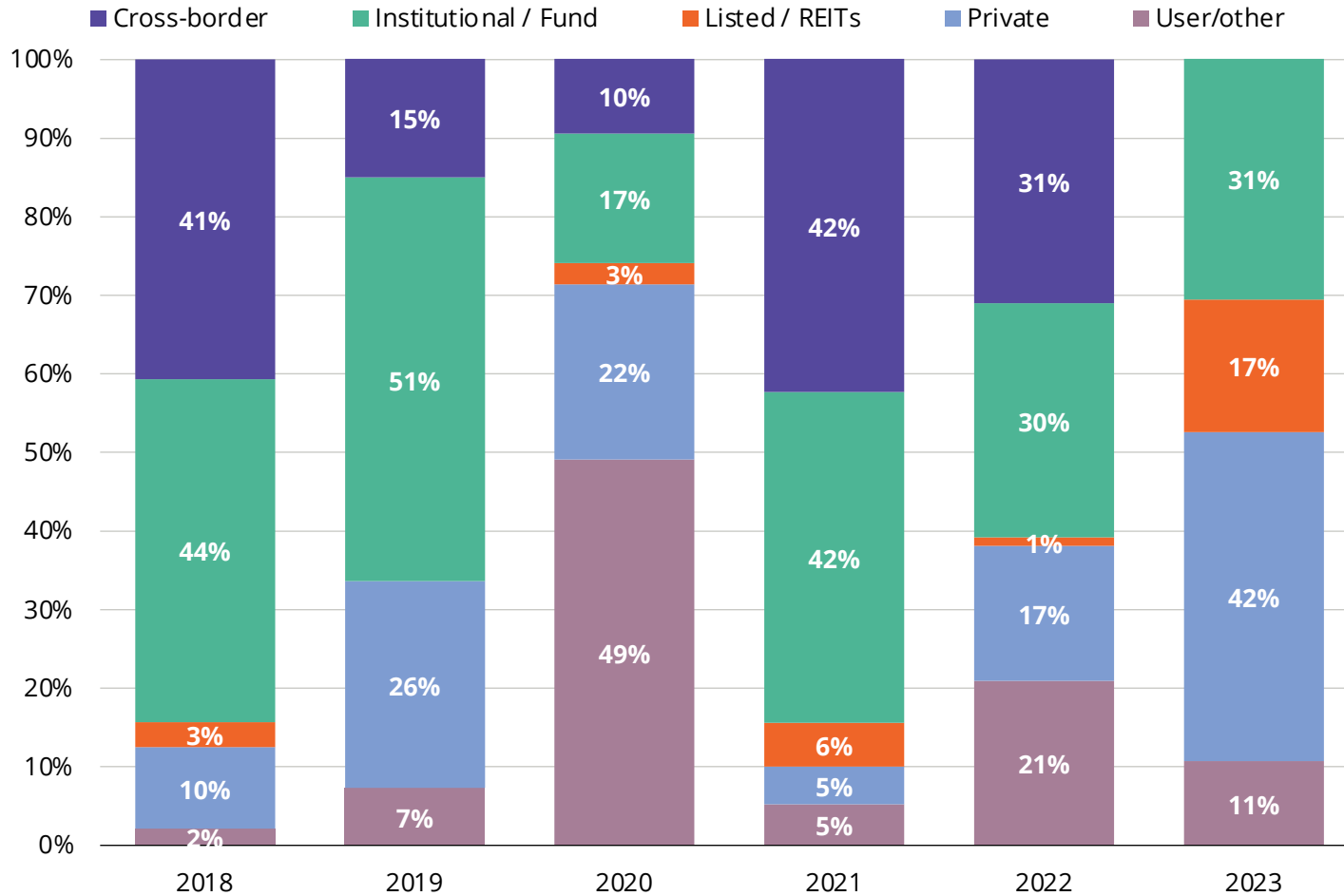


Investment Volume by Asset Profile



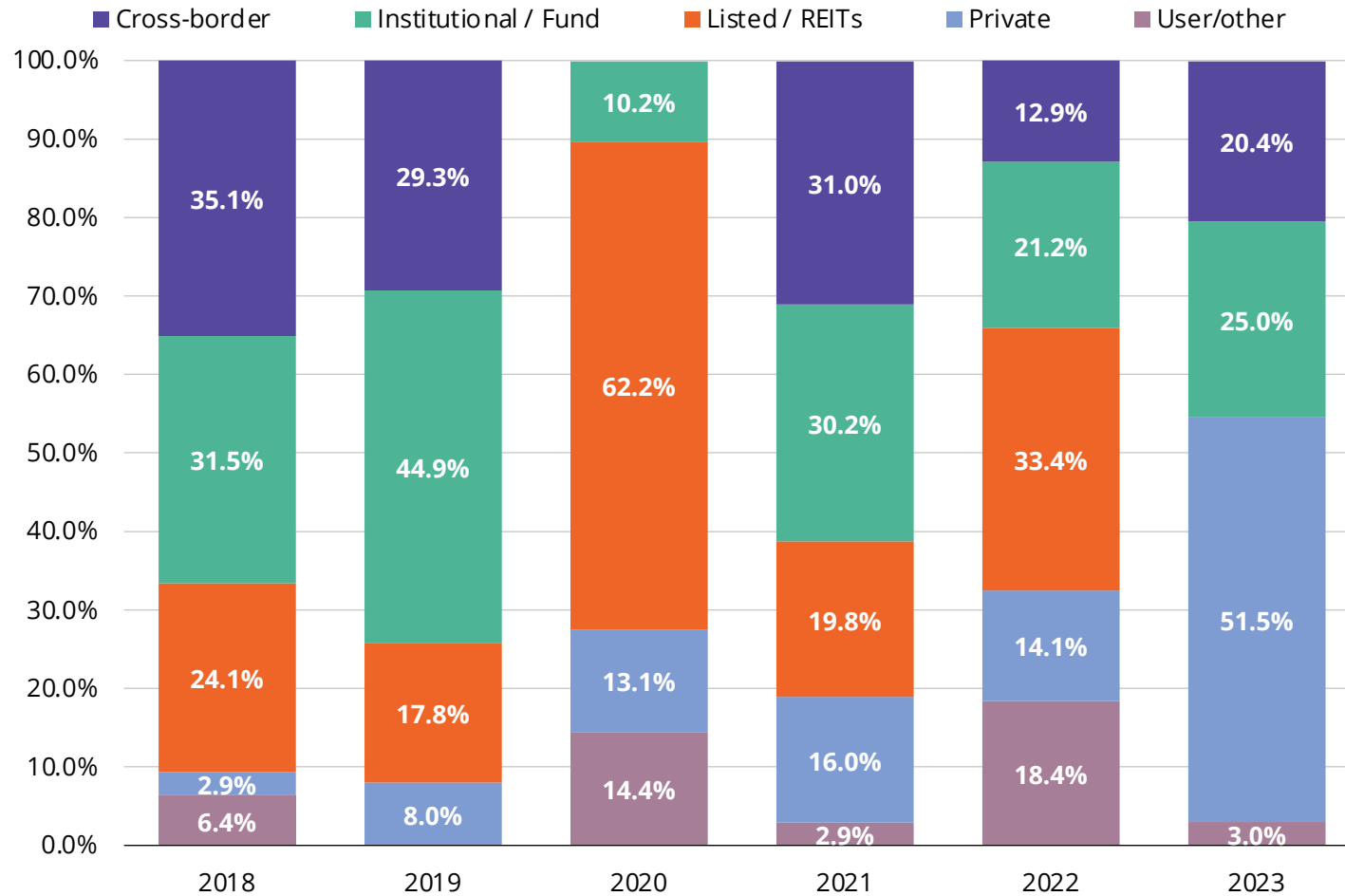
With structural shifts continuing to affect the office market, investors have gravitated away from value-add investments, in favor of more core opportunities. In addition, investors have explored residential conversion to unlock value in obsolete office product.

Buyer Profiles



As pricing has softened and distressed assets are hitting the market, private buyers have entered the fold, while institutional capital has pulled back. Foreign buyers also tend to enter the mix in times of economic distress overseas, but with core investments absent from the market, this has not been observed in 2023.

Seller Profiles

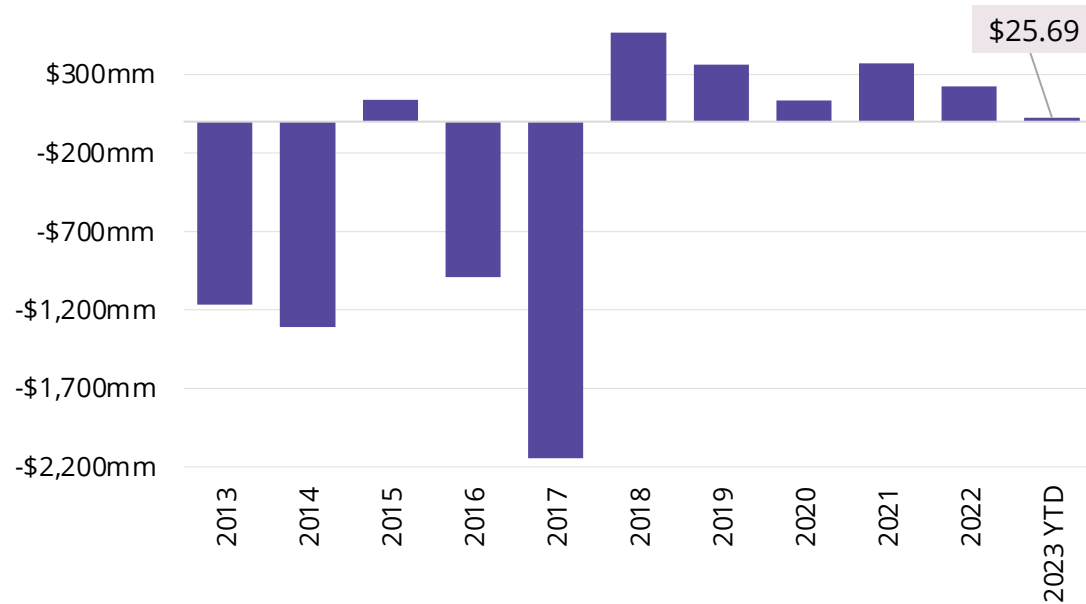


With turbulent debt markets making refinancing assets difficult, private investors have been forced to dispose of assets at a much higher rate than past years.

Capital Flows

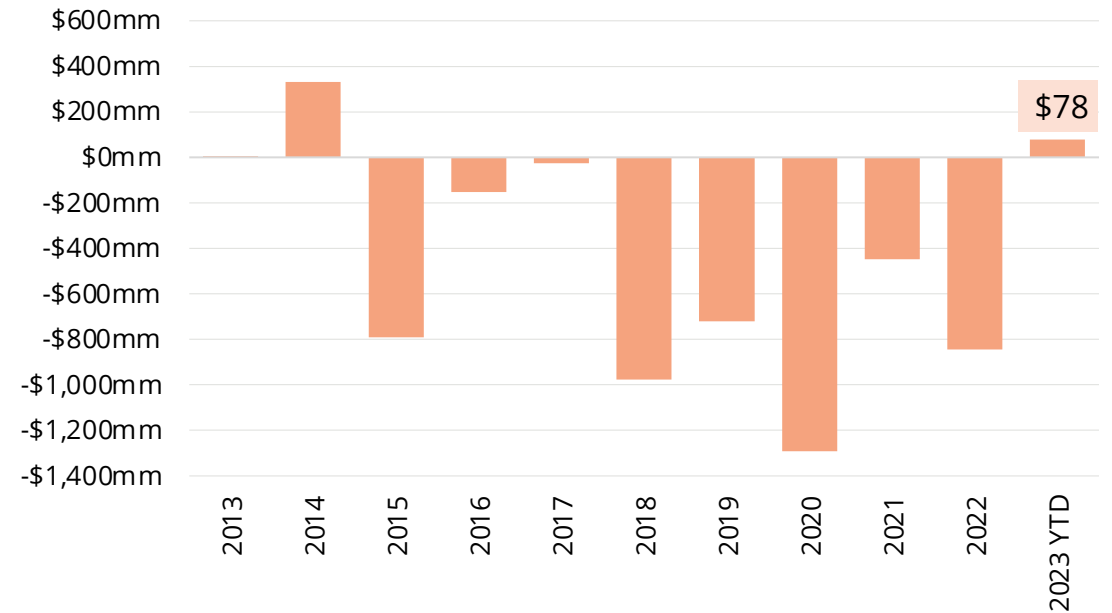
\$25.7mm

Institutional net acquisitions – YTD 2023



\$78.25mm

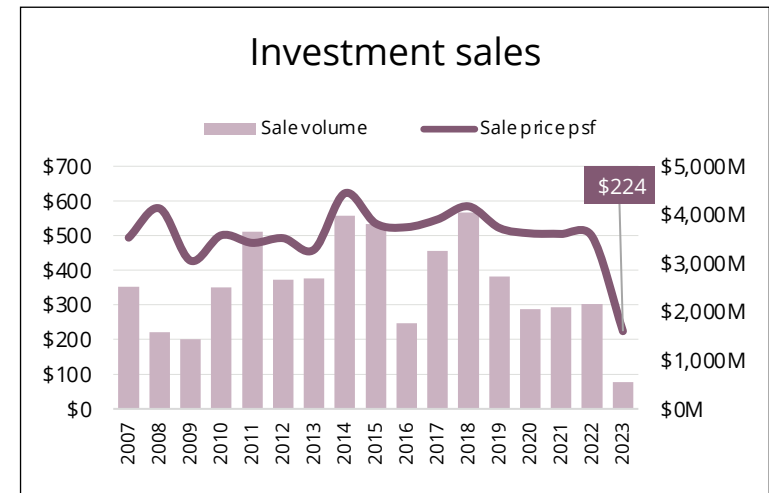
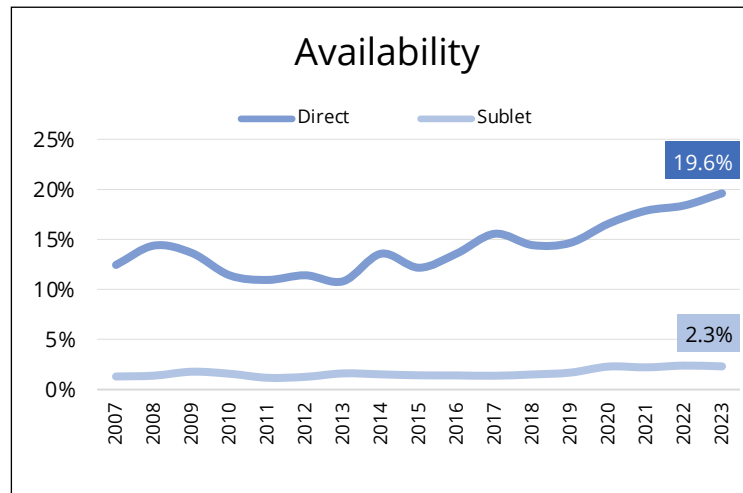
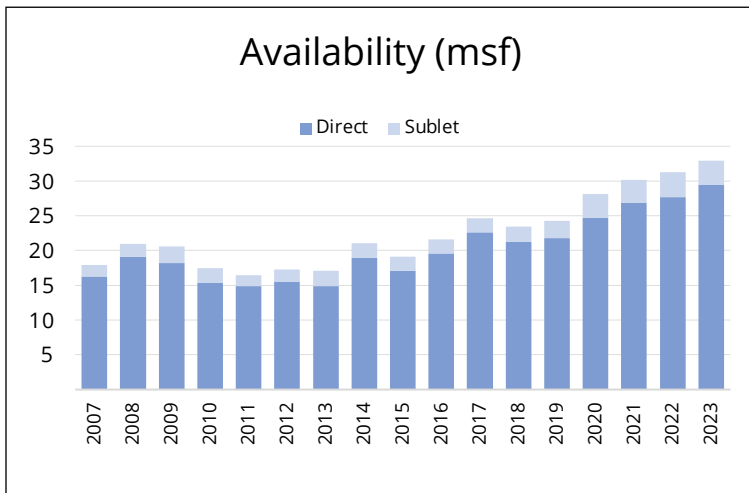
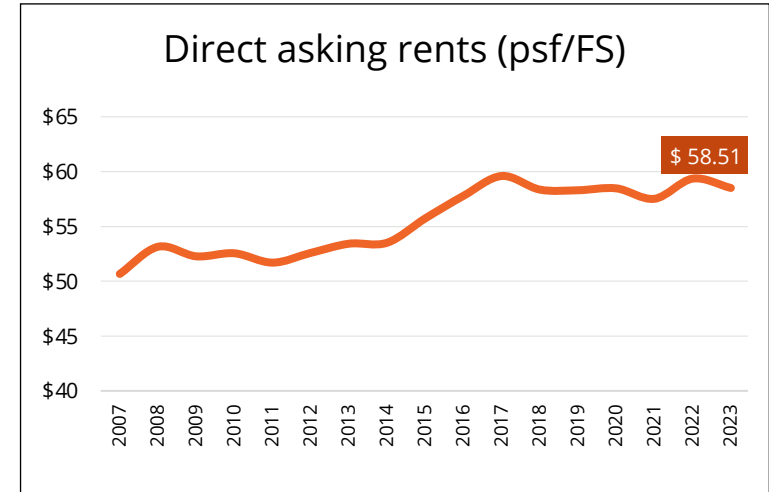
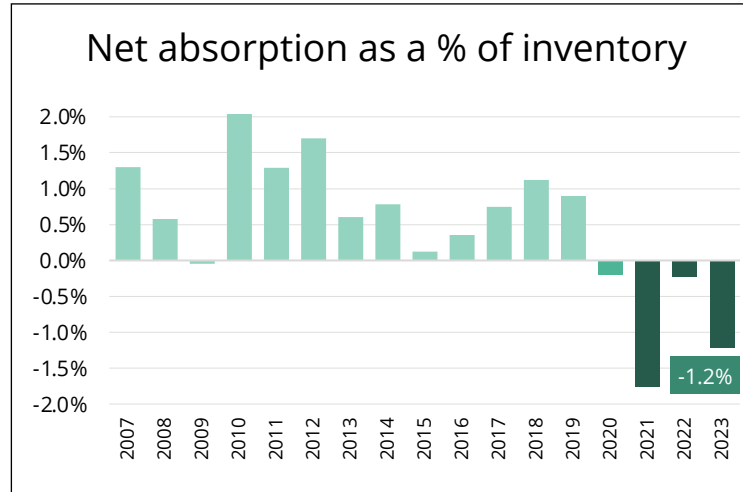
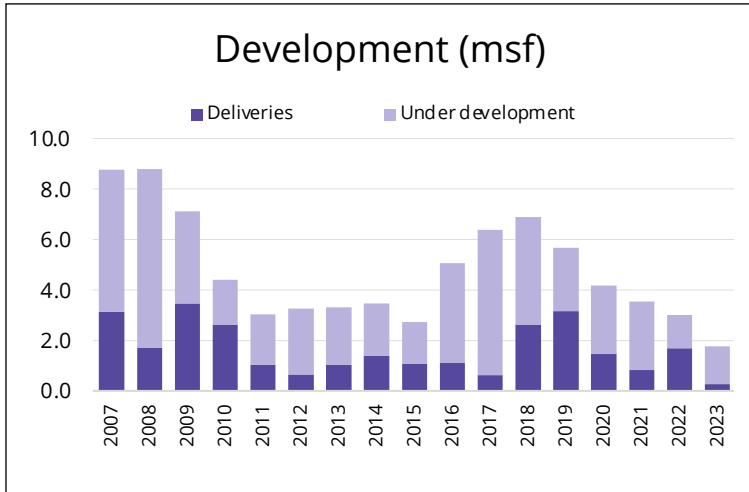
REIT/Listed net acquisitions – YTD 2023



Appendix



Washington, DC Office Market Indicators



Washington, DC Office Market Activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
American Clean Power	1299 Pennsylvania Ave NW	East End	Sept 2023	42,405	New	Direct
Locust Group	1307 New York Ave NW	East End	Aug 2023	21,500	New	Direct
Kelley Drye & Warren	670 Maine Ave NW	Southwest	Sept 2023	65,000	New	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Douglas Legum Development	1411 K St NW	Aug 2023	89,172	\$9,100,250	\$102	TA Realty
MetTel	816 Connecticut Ave NW	Aug 2023	29,446	\$7,873,250	\$267	Greenstone Realty Advisors

Top projects under development

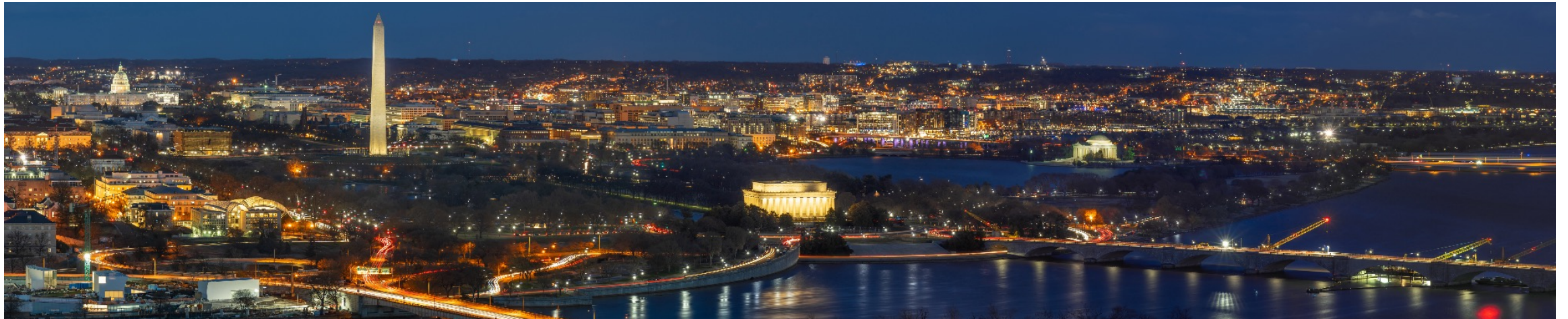
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
20 Massachusetts Ave NW	Capitol Hill	Q4 2023	183,000	0%	RMR, OPI
1700 M St NW	CBD	Q3 2024	334,000	58%	Skanska
600 5 th St NW	East End	Q1 2026	399,617	55%	Rockefeller, Stonebridge

Washington, DC Office Submarket Stats

Submarket Name	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Total availability change (YoY)	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
CBD	39,420,739		334,000	21.3%	2.5%	23.7%	-0.8%	0.1%	-1.8%	\$ 58.86
Capitol Hill	8,821,557		183,515	18.4%	2.5%	20.9%	4.6%	0.5%	0.4%	\$ 68.72
Dupont Logan Shaw	6,308,141			10.8%	0.6%	11.4%	-5.2%	-0.3%	0.3%	\$ 54.01
East End	52,176,053		399,617	23.4%	2.8%	26.2%	2.8%	-1.0%	-1.4%	\$ 60.29
Georgetown	2,971,316			28%	2%	30%	6.5%	-0.9%	-7.5%	\$ 52.57
Navy Yard	4,782,590			16.4%	3.1%	19.5%	3.9%	0.4%	-1.3%	\$ 59.28
NoMa	7,998,680			15.6%	1.3%	17%	5.9%	-2.7%	-4.1%	\$ 50.64
Northeast	2,165,360		32,251	14.2%	-	14.2%	-2.9%	1.5%	8.0%	\$ 49.36
Southeast - East of the River	942,166	258,000	507,200	6.4%	1.2%	7.6%	7.0%	27.0%	26.5%	\$ 46.
Southwest	13,350,606			14.7%	0.7%	15.4%	3.5%	-1.1%	-1.8%	\$ 54.71
Upper Northwest	5,266,569		41,000	12.8%	2.2%	15%	-6.2%	0.2%	0.0%	\$ 43.5
West End	4,670,298			10.1%	4.9%	15%	-0.4%	0.7%	0.3%	\$ 52.59
Market total	148,874,075	258,000	1,497,583	19.6%	2.3%	21.9%	1.1%	-0.4%	-1.2%	\$58.51

Washington, DC Office Market Stats by Class

Class	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption % of inventory (QTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	9,451,731		733,617	14.5%	4.8%	19.2%	0.26%	0.51%	\$95.05
Class A	36,392,043	258,000	592,515	19.6%	2.7%	22.3%	1.13%	0.67%	\$70.17
Class B	92,111,150		171,451	20.7%	2.1%	22.8%	-1.02%	-2.16%	\$53.50
Class C	10,919,151			17.8%	0.9%	18.6%	-0.10%	-1.12%	\$41.28
Market total	148,874,075	258,000	1,497,583	19.6%	2.3%	21.9%	-0.4%	-1.2%	\$58.51



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

For more market insights and
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