



Washington, DC office market report

Q4 2023

**AVISON
YOUNG**

Washington, DC Office Market Trends

17.8%

Faster time to lease on spec suites vs. other office listings

In the wake of the COVID-19 Pandemic, and the corresponding rise in hybrid and remote working models, companies have been forced to reevaluate their space needs. Spec suites offer tenants move-in ready space and allow landlords to control buildout costs and apply some economies of scale being able to buildout multiple suites at a time. These suites generally lease faster, roughly **17.8%** on average, than turnkey or shell offerings, another perk for landlords.

\$656mm

DC office investment volume in 2023

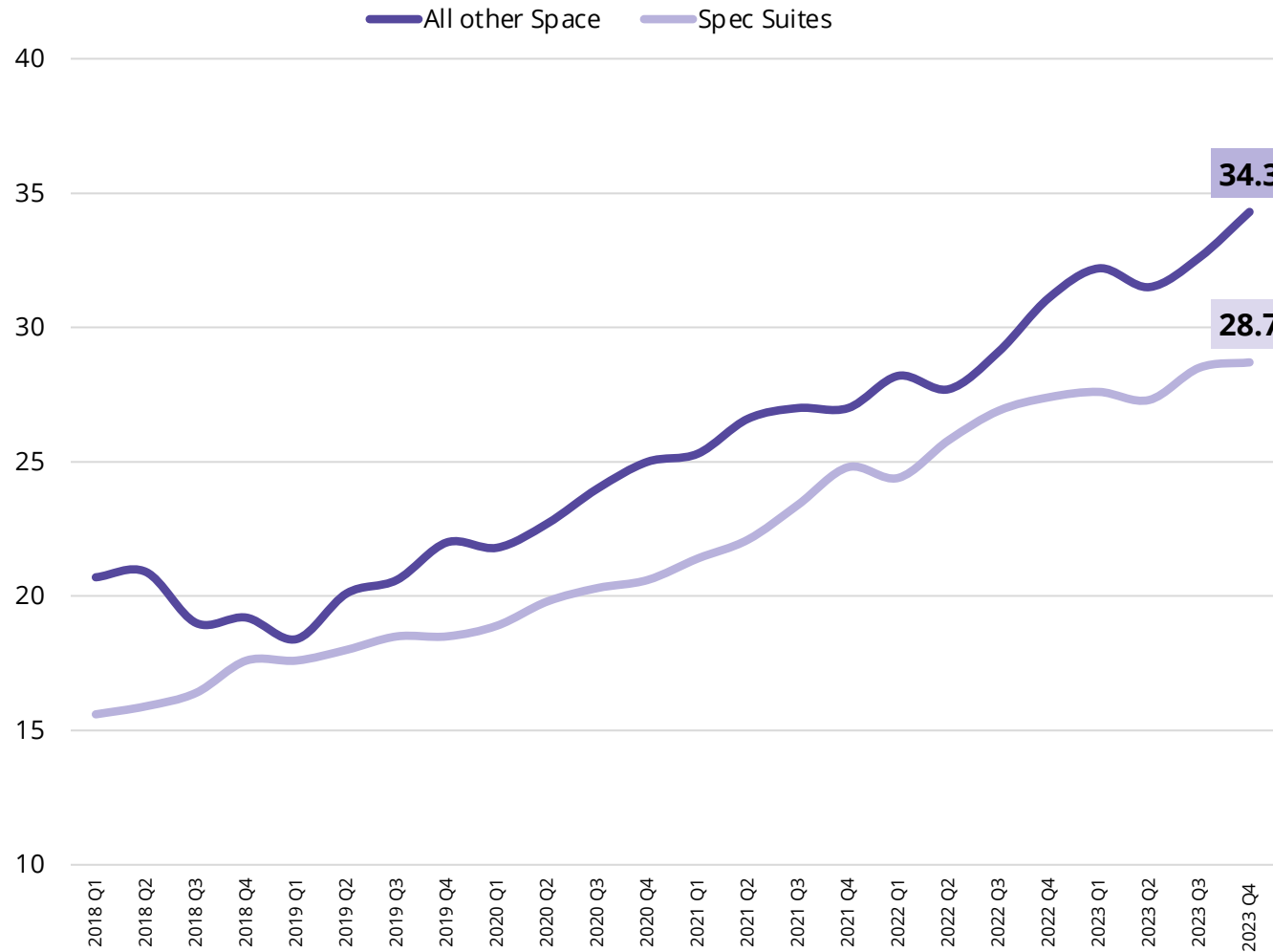
The culmination of structural issues as it relates to office utilization, and cyclical macroeconomic issues stemming from high inflation and therefore rising interest rates, has crushed DC office investment. Most of this figure is the result of opportunistic investment, with many of these assets being slated for conversion to alternative uses. This figure represents a **124% reduction** in volume from average yearly volume from the period between 2012 and 2022. Note, this figure excludes user sales and entity level portfolio sales.

47.8%

Total share of leasing velocity captured by Trophy and Class A

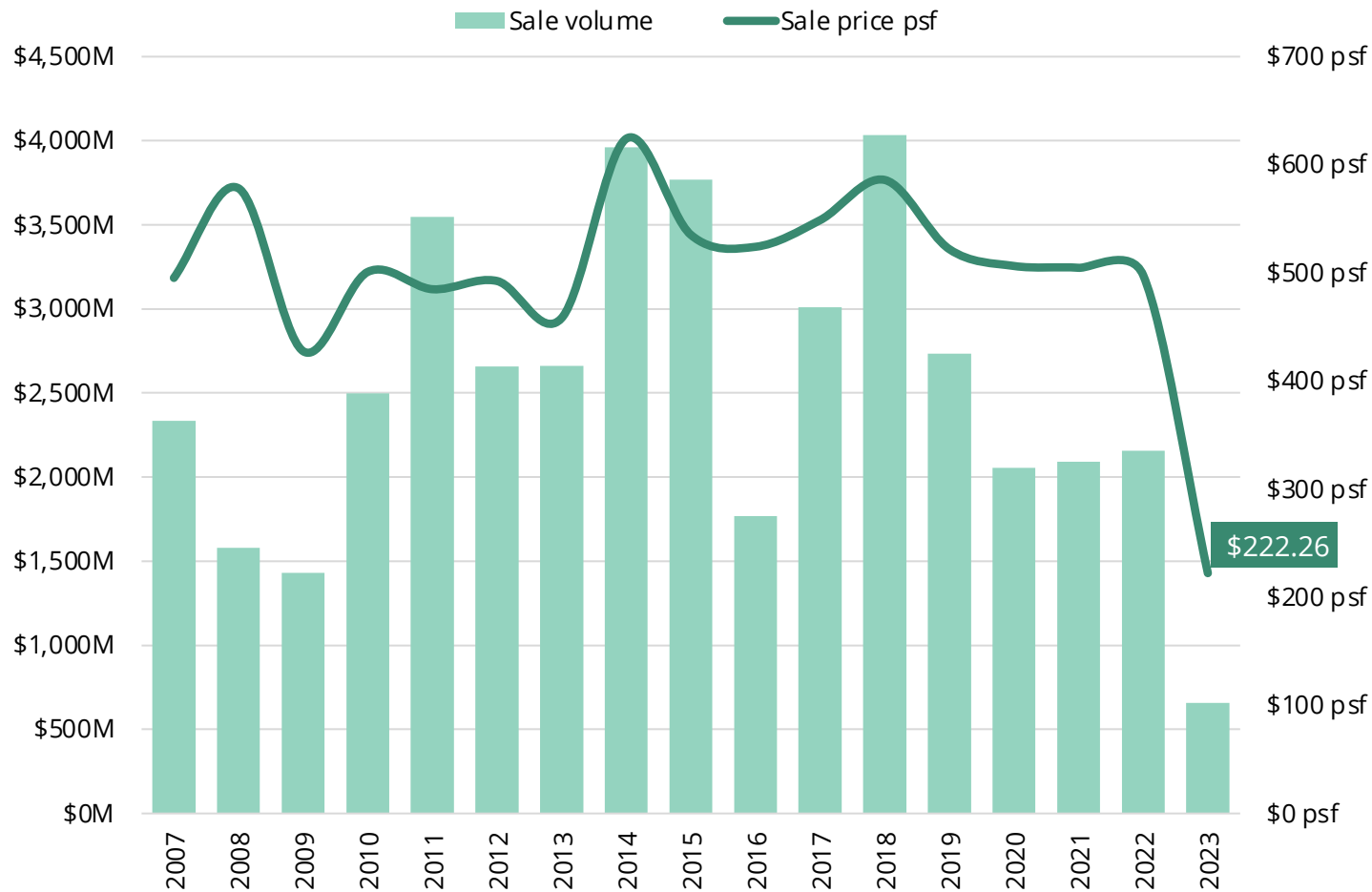
DC, much like many major markets, has experienced a flight-to-quality in terms of its office stock. The model of taking less space in higher quality buildings has allowed price-sensitive tenants to explore more high-end options than they had previously been able to. For context, this segment of the market represents roughly **30% of overall inventory**, illustrating an outsized capturing of tenant demand.

Time on Market (Months)



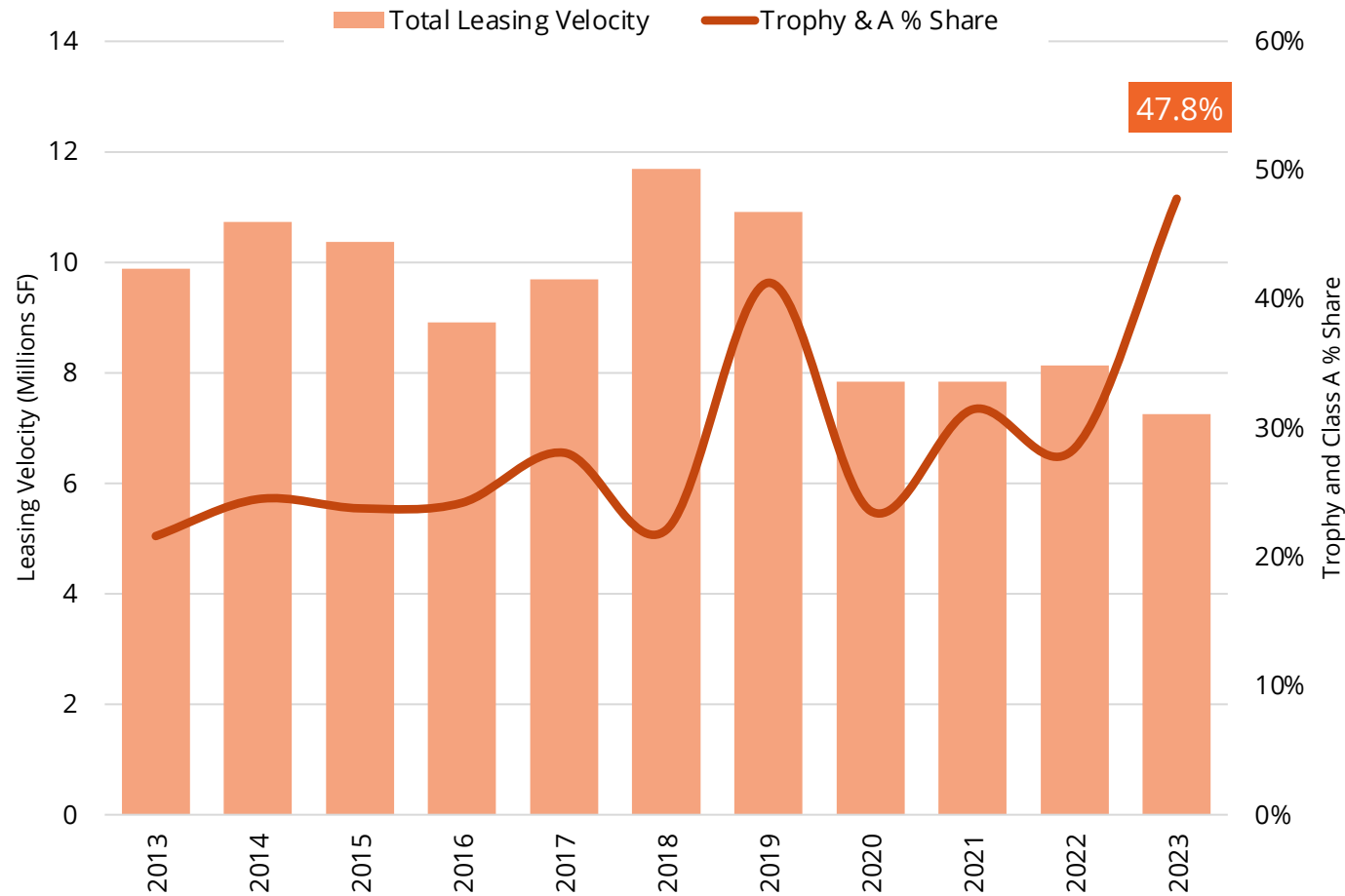
Spec suites offer landlords roughly 17.8% faster time to lease than traditional office offerings, and allow landlords flexibility as it relates to cost, and tenants flexibility as it relates to term.

DC Office Investment Volume and Pricing



Rising interest rates, and general uncertainty with regard to the future of office utilization has resulted in heavily suppressed investment in the DC office sector. DC is beginning to witness a price correction, which should in turn lure opportunistic investors.

Flight to Quality



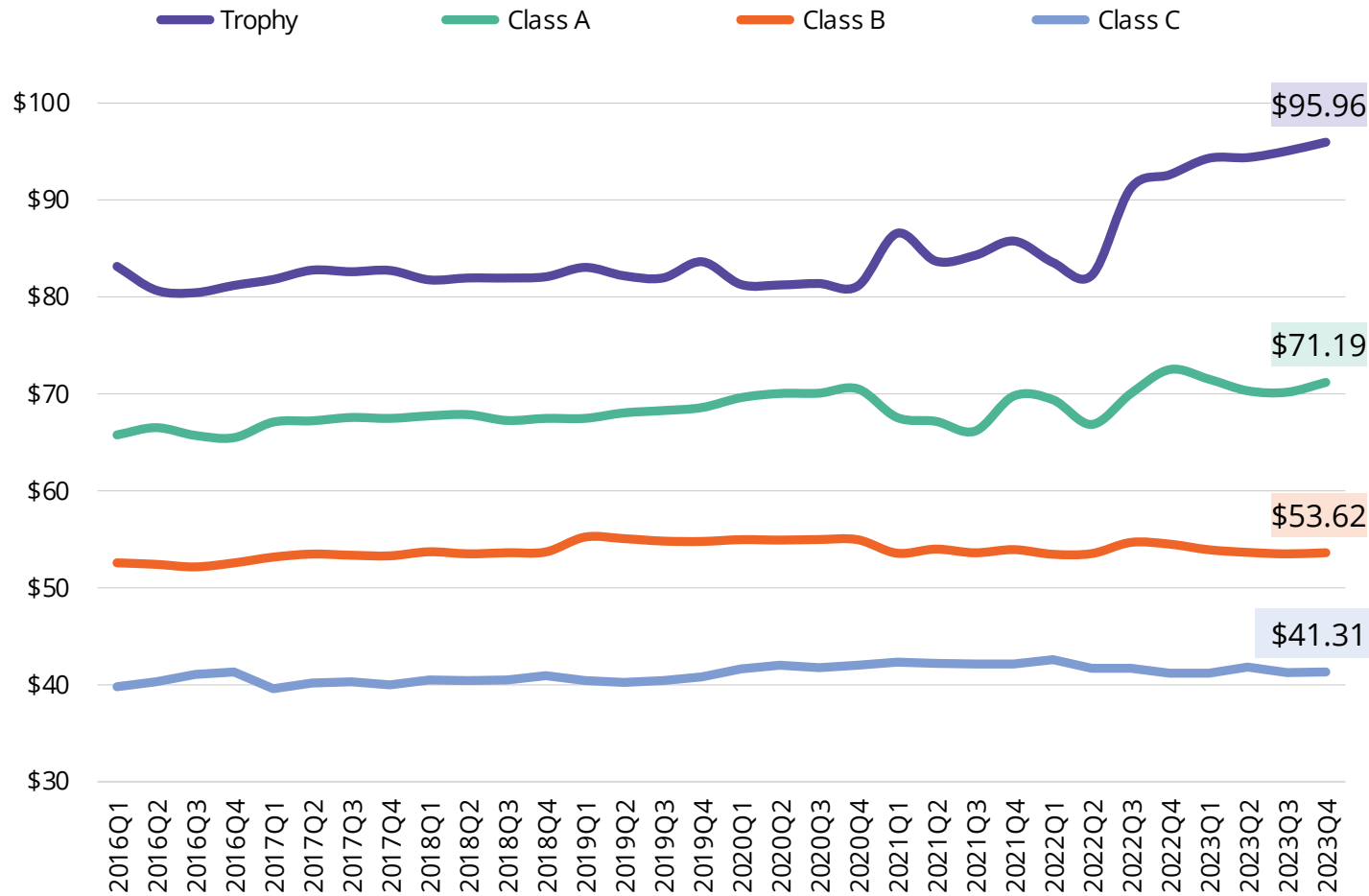
Tenants who have elected to transact have generally taken advantage of the environment, and upgraded their space in terms of quality, and with a limited development pipeline, this will be an interesting trend to monitor.

Occupier Trends

Let's examine more
prevailing office trends

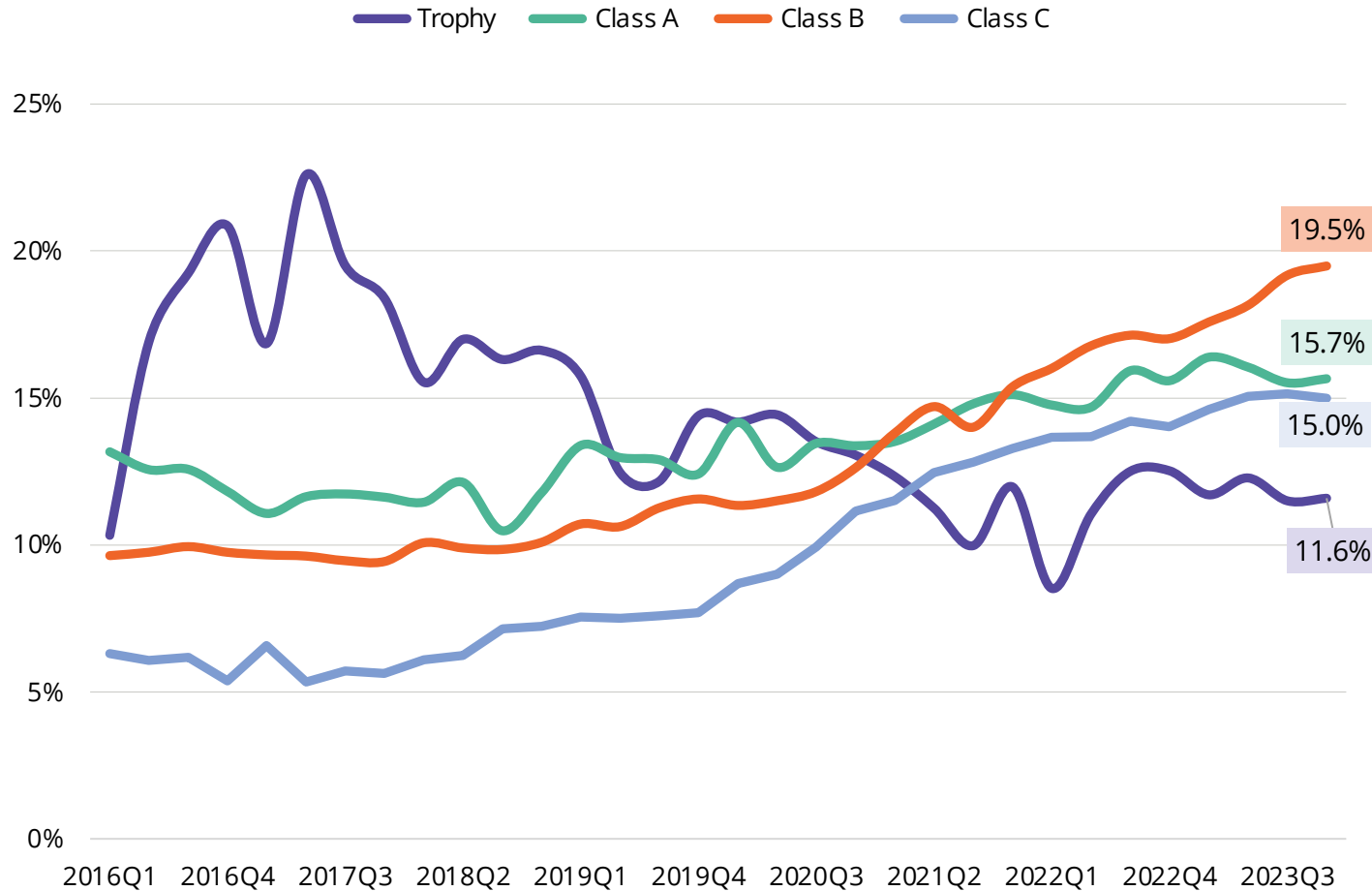


Average Asking Rent FS by Class



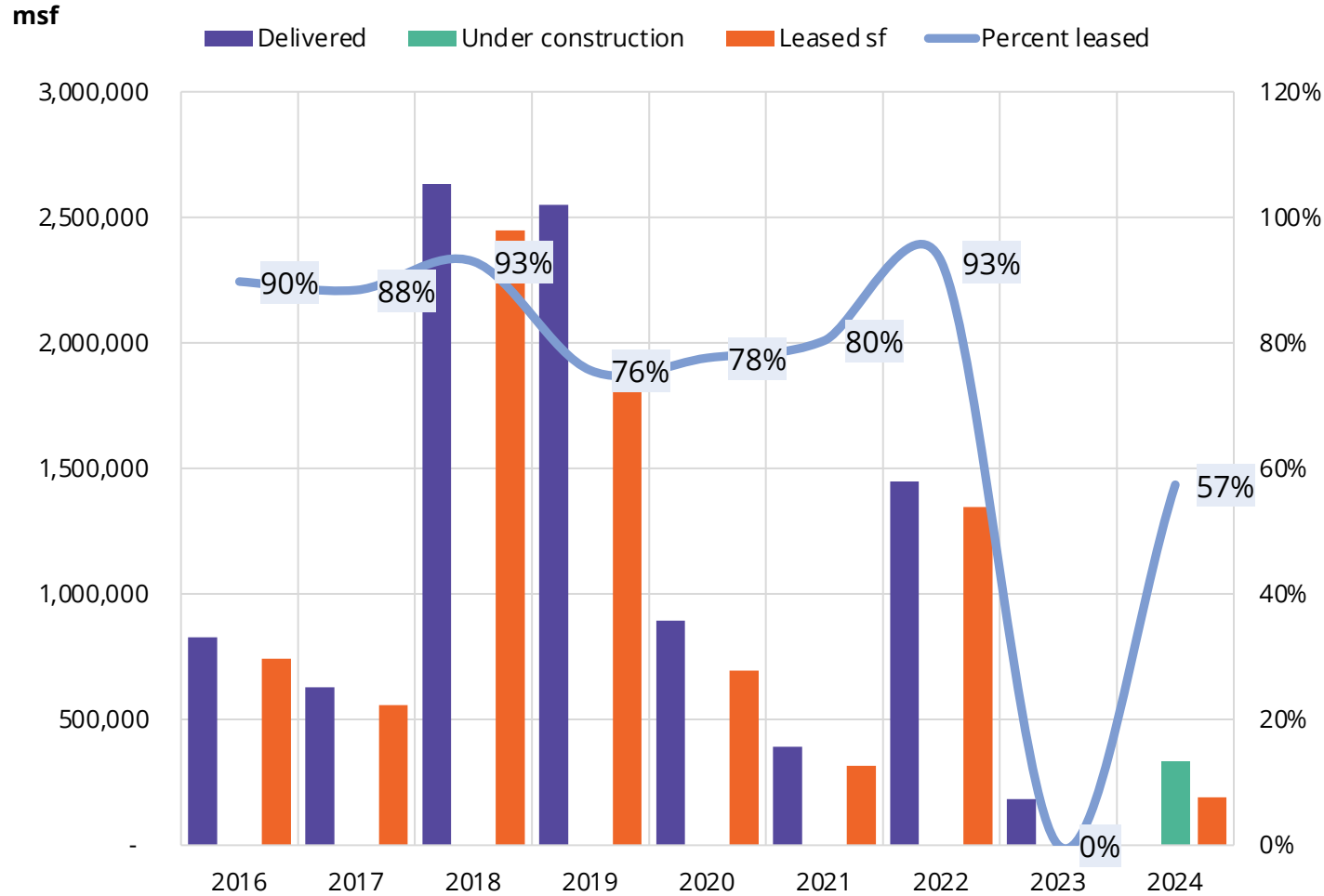
With the flight to quality trend enhancing demand in the higher quality segments of the market, the trophy segment is the only one to experience real asking rent growth over recent quarters.

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 (Core Submarkets)



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.

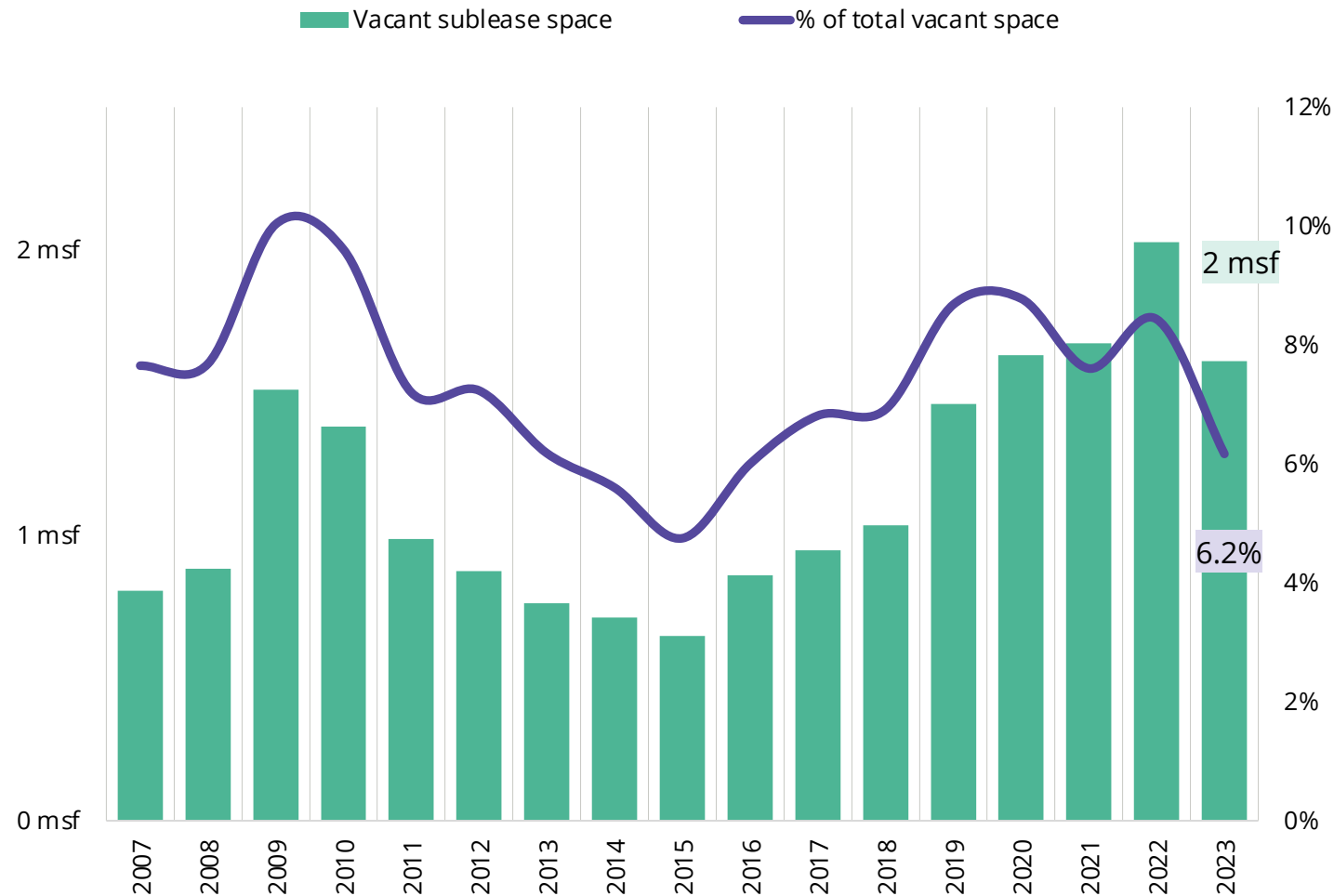
Source: AVANT by Avison Young, CoStar
 Note: excludes government leased properties in Capitol Hill, CBD, East End, Navy Yard, and Southwest

Absorption and Direct Availability by Class



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

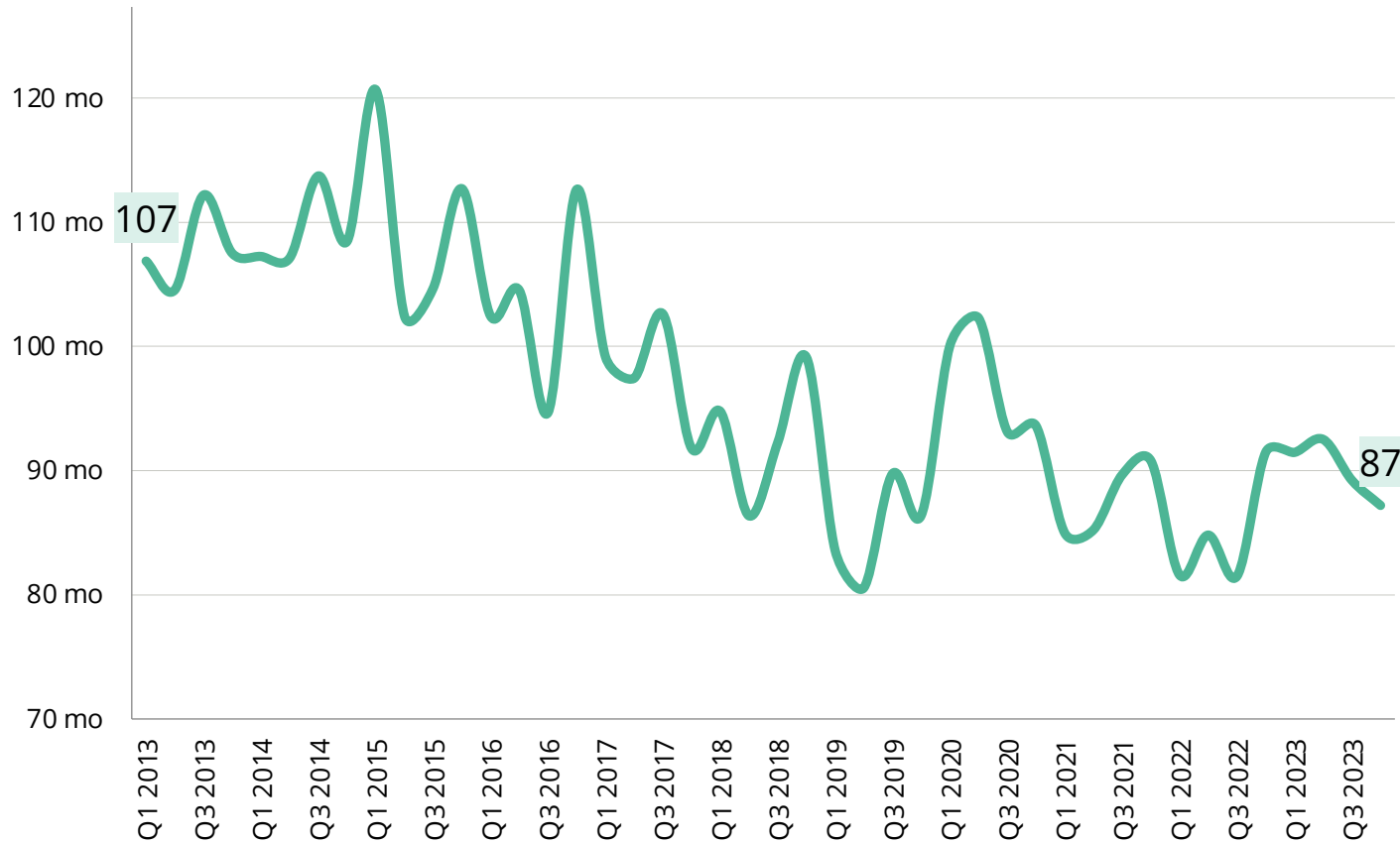
Available Sublease Space



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

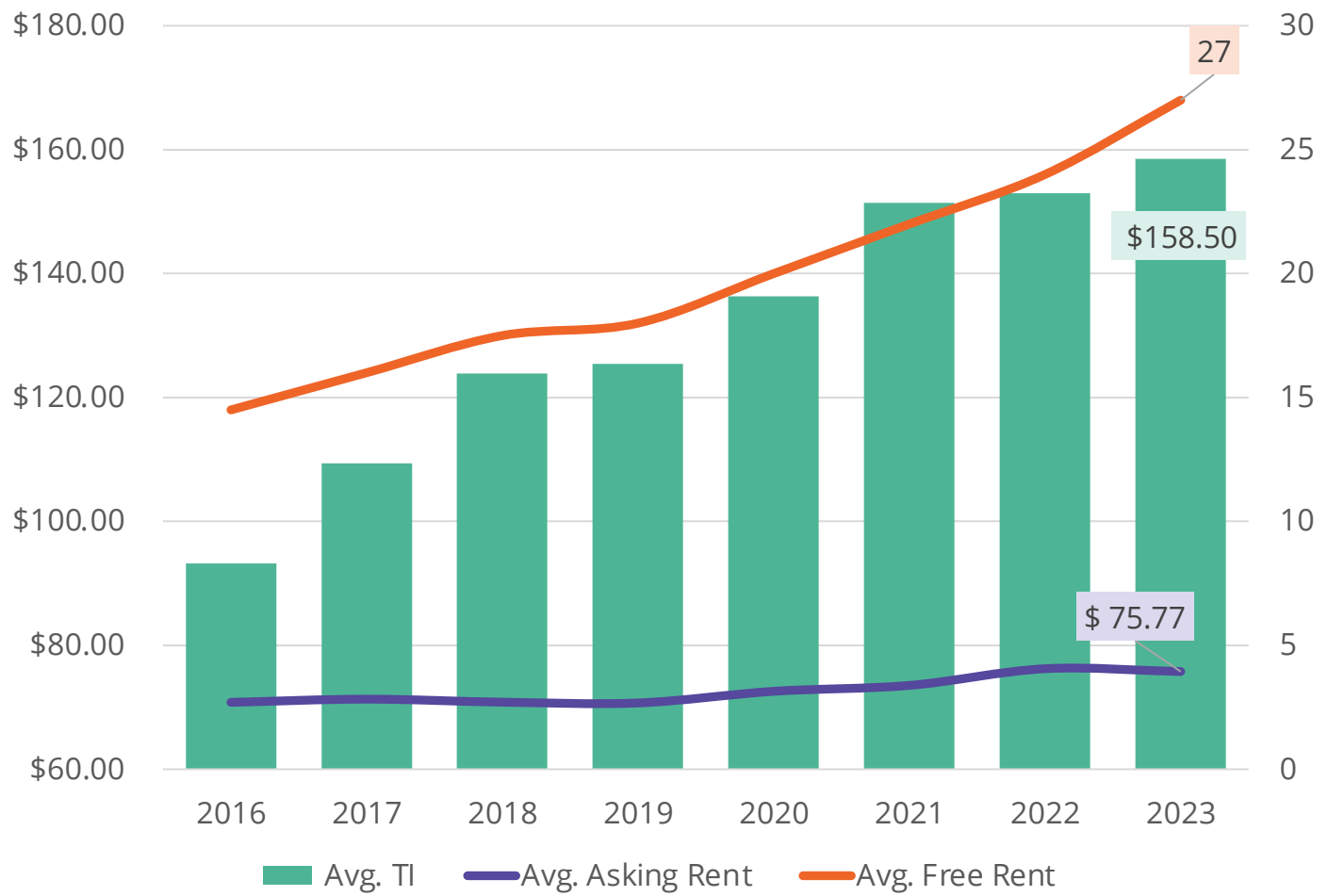
Lease term
(mos.)



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.

Spec suite leasing activity has increased drastically, albeit, with generally shorter term length.

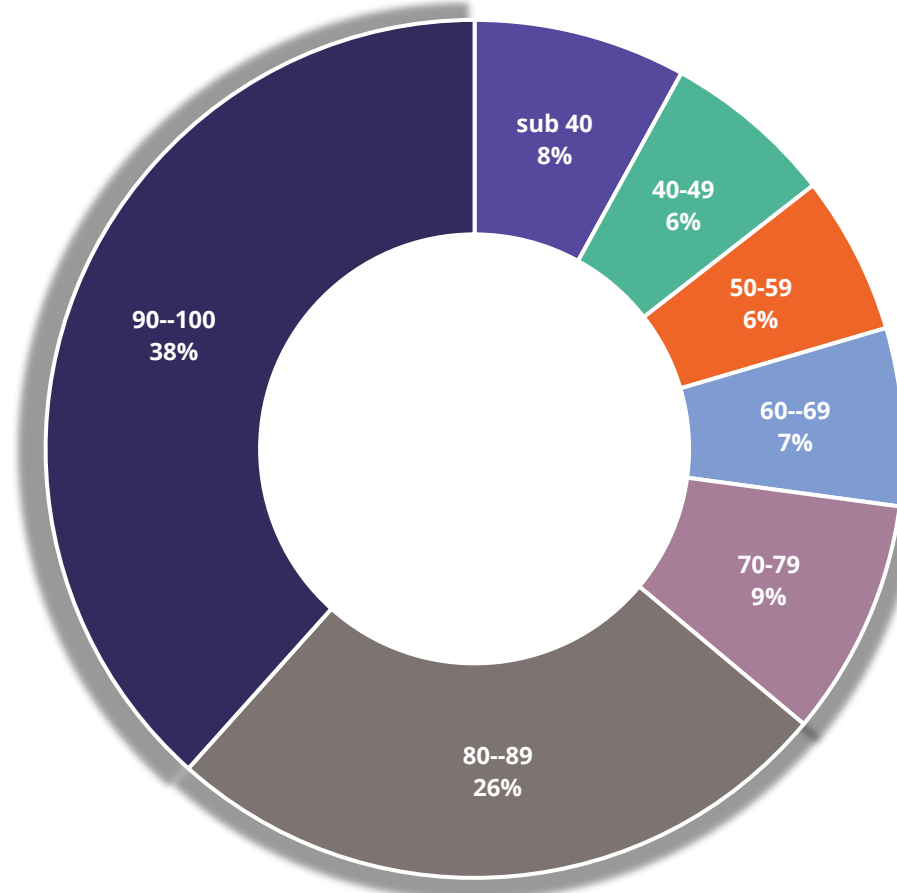
Asking Rents vs. Concessions (Trophy & Class A)



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.

Flight to Quality (2021-Pres)



■ 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 –

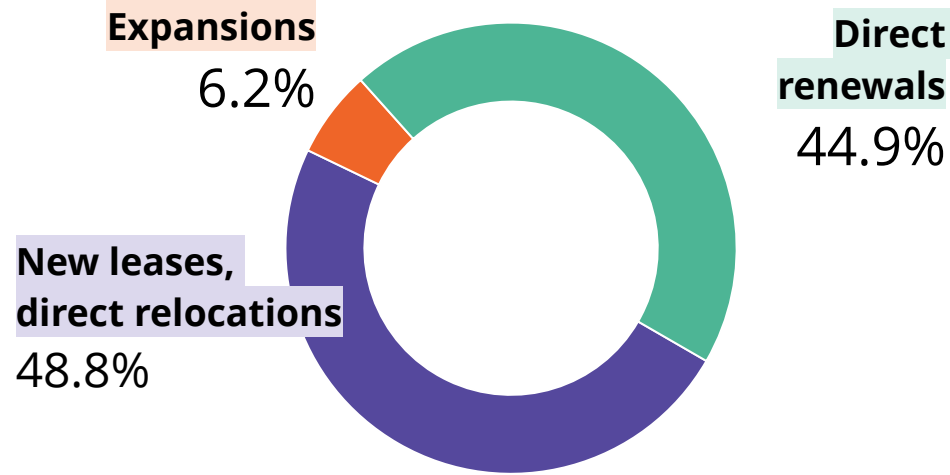
- Rent
- Year Built
- Presence of a Conference Center
- Presence of a Tenant Lounge
- Presence of a Roof Terrace
- Presence of a Private Terrace

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



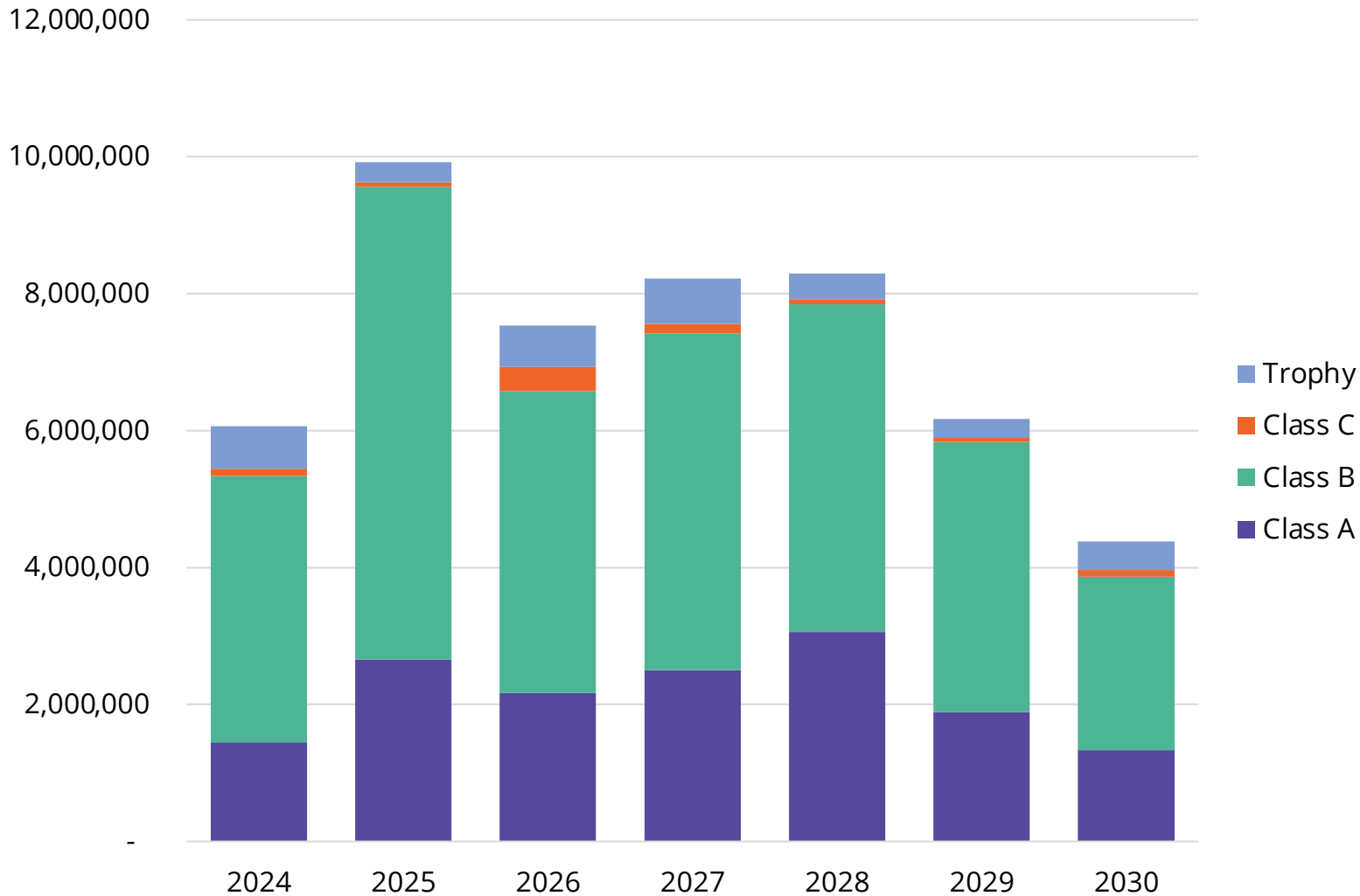
2020 - Pres



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

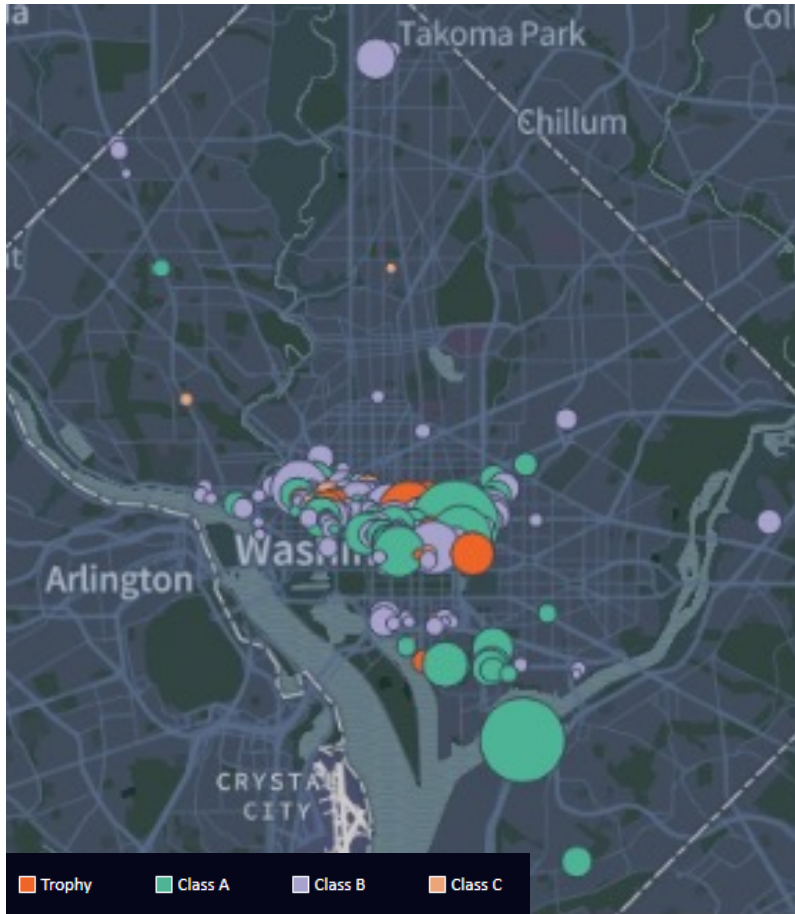
However, recent tightening in the trophy segment of the market has driven increased renewal activity.

Lease Expirations

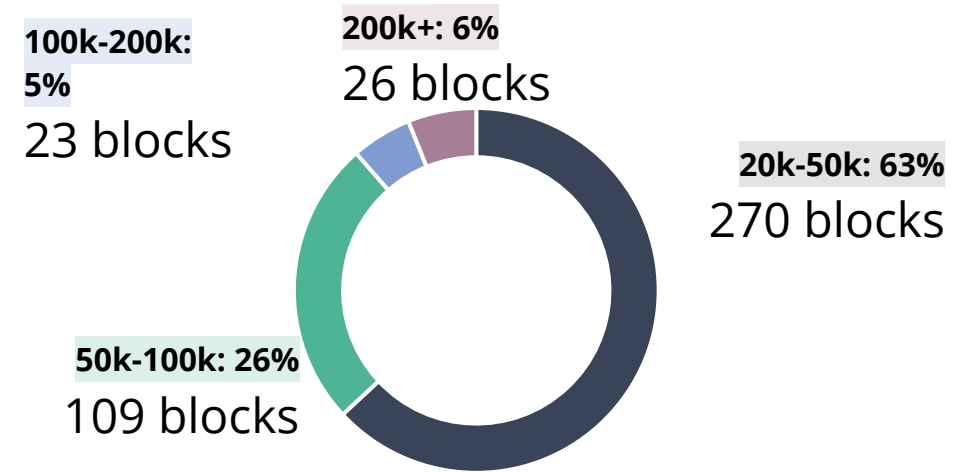


DC has over 6 million sf per year of expiring leases until 2029, most of which is in the Class B segment of the market.

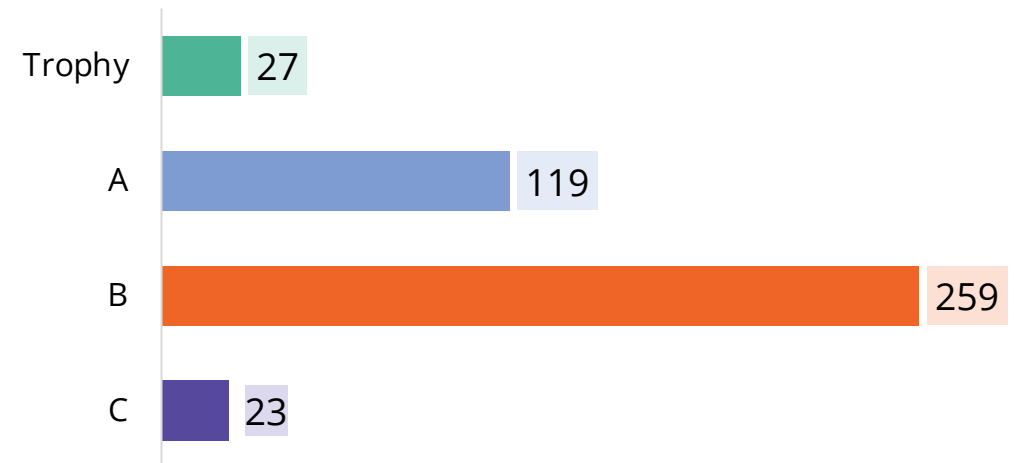
Office Large-Block Availabilities



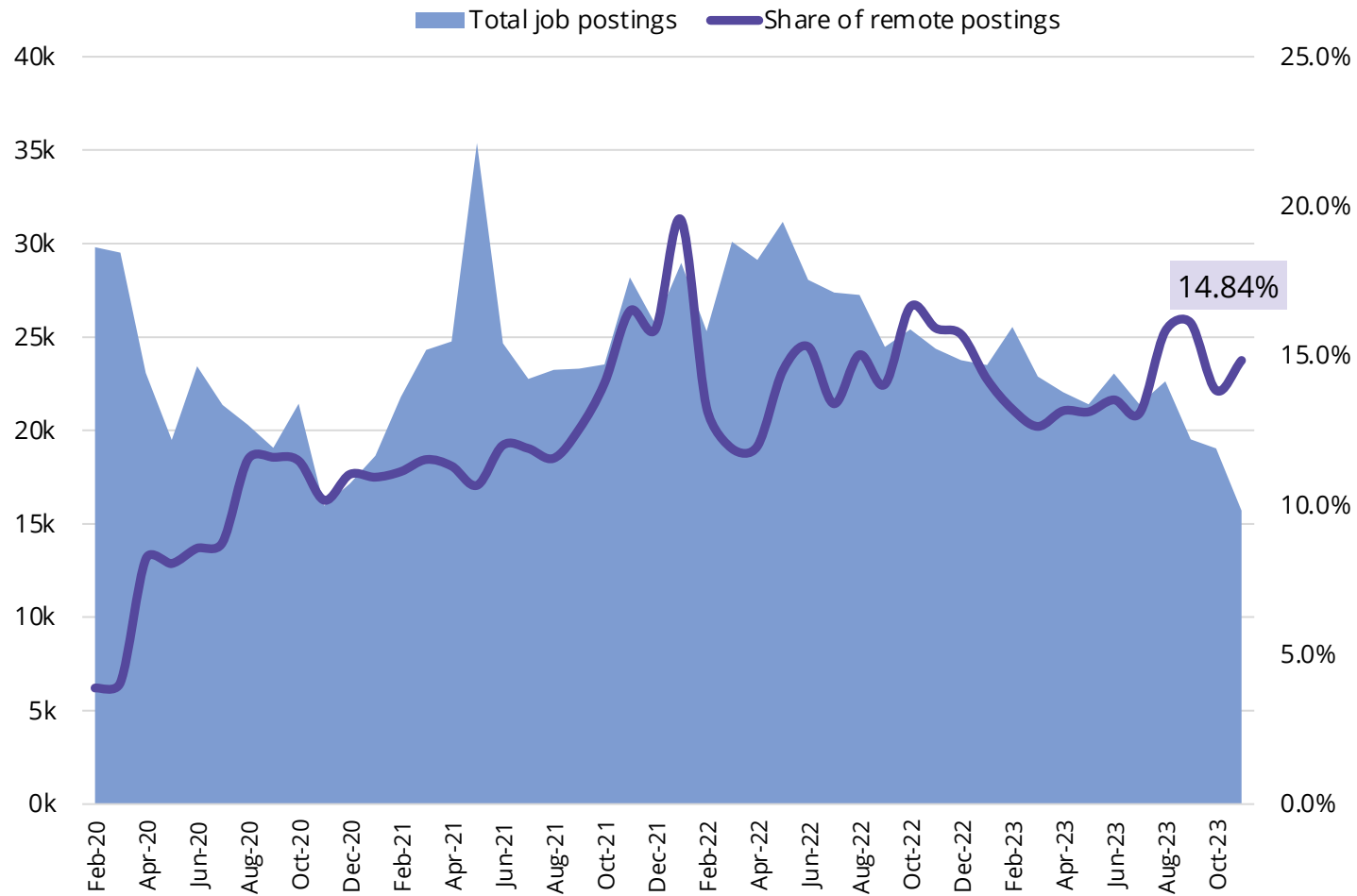
Large-block space size ranges



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.

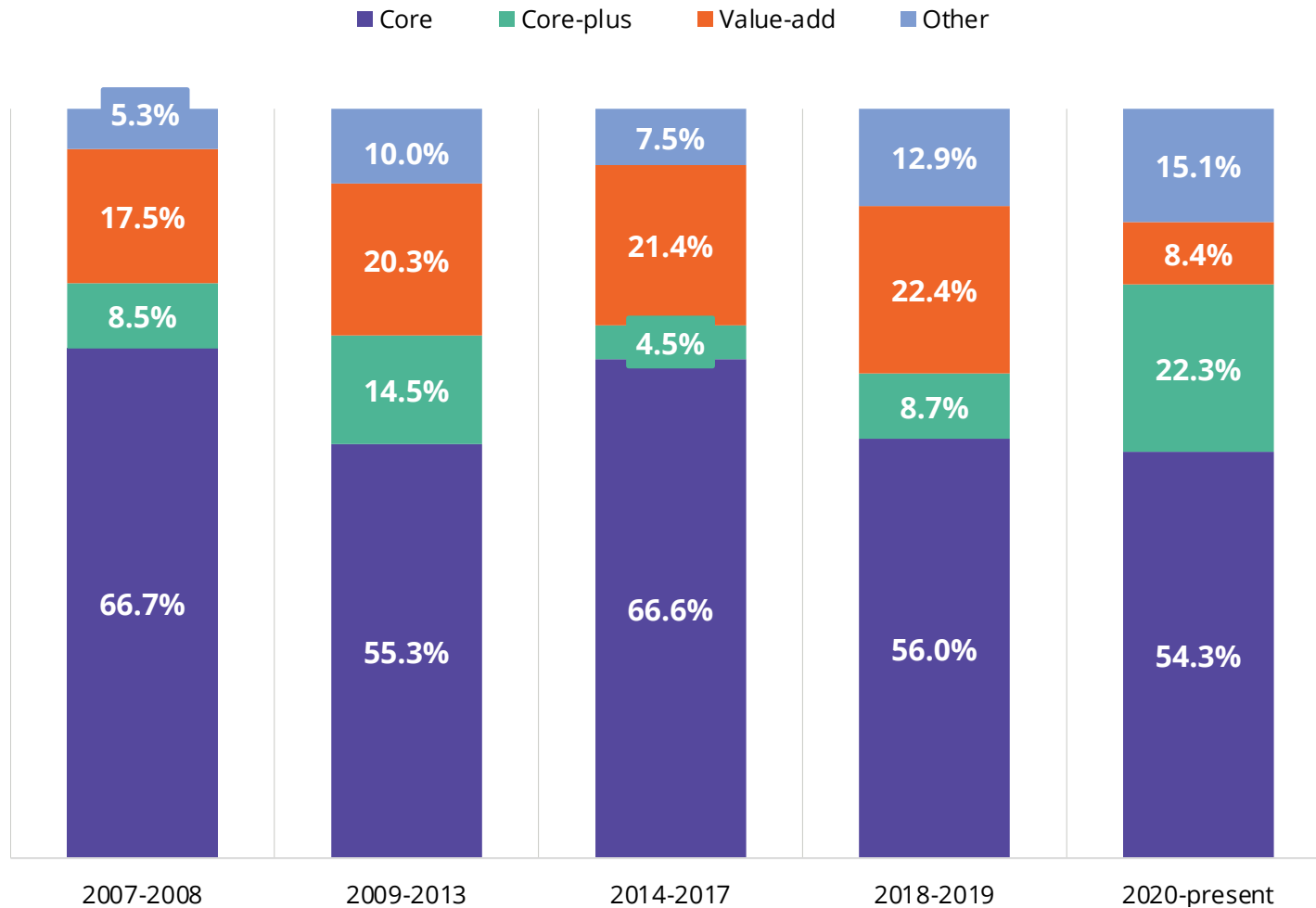
Note: Total job postings includes remote and non-remote jobs
Source: AVANT by Avison Young, Lightcast
Note: remote postings defined as fully remote

Capital Markets trends

Let's examine more investment trends

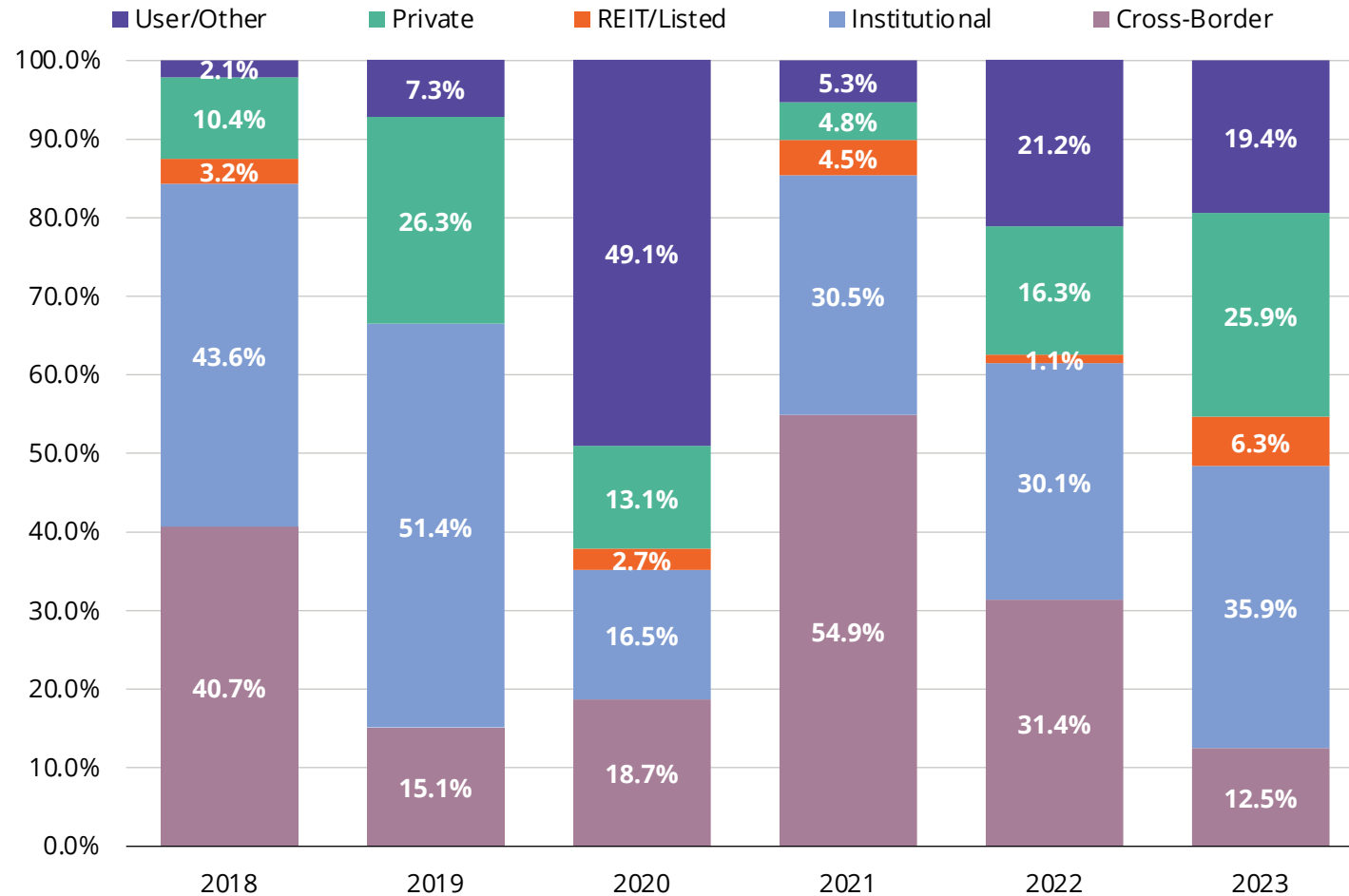


Investment Volume by Asset Profile



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.

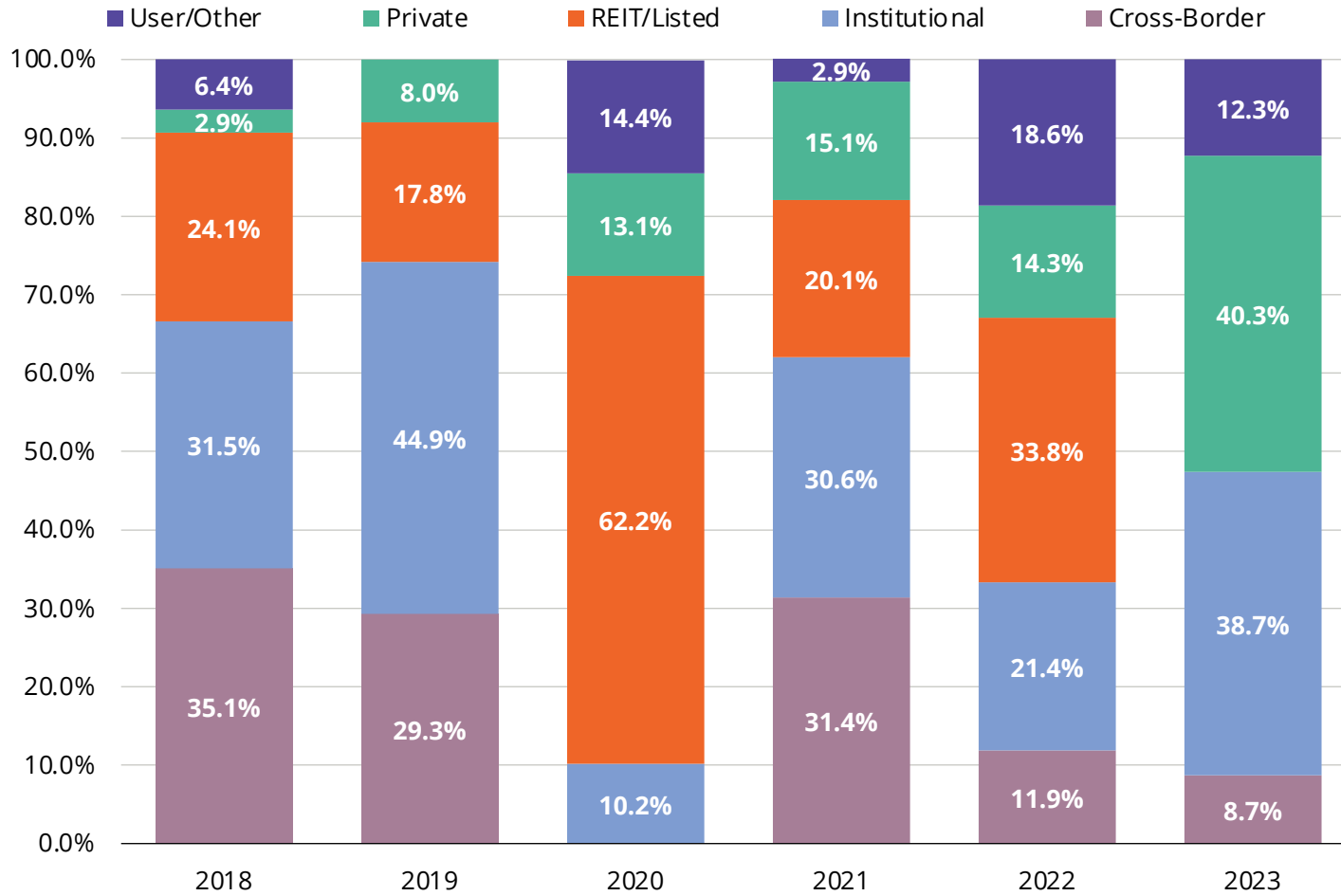
Buyer Profiles



As pricing has softened and distressed assets are hitting the market, non-institutional buyers are able to acquire institutional-quality assets in generational locations.

User buyers, such as Kaiser Permanente, are also accounting for a substantial portion of DC office sales volume.

Seller Profiles



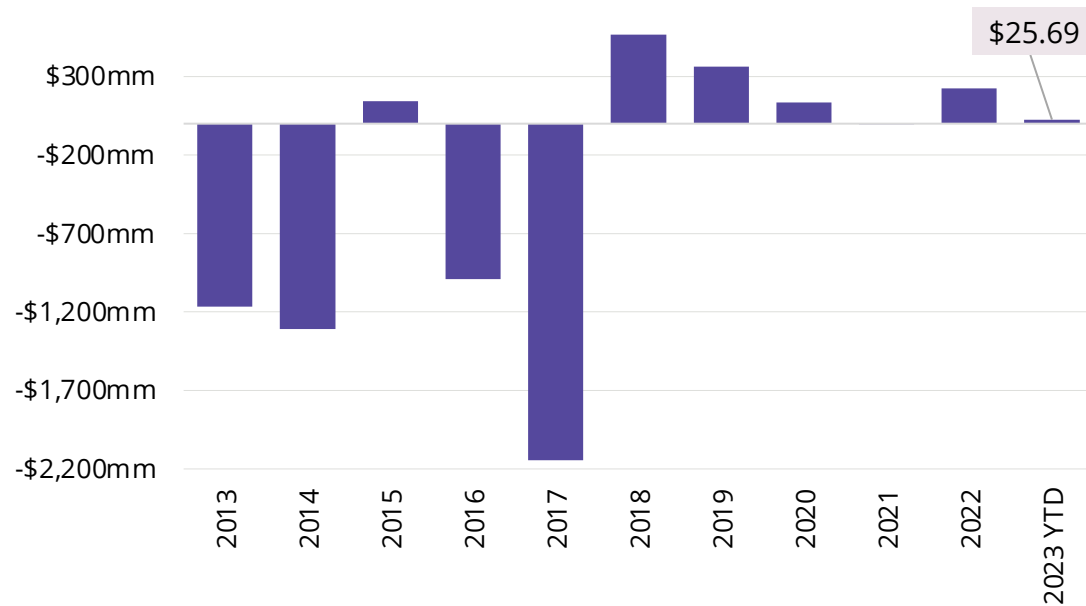
With turbulent debt markets making refinancing assets difficult, private investors have been forced to dispose of assets at a much higher rate than past years.

Institutional investors are also divesting at a higher clip due to office assets no longer fitting their investment or fund strategies any longer.

Capital Flows

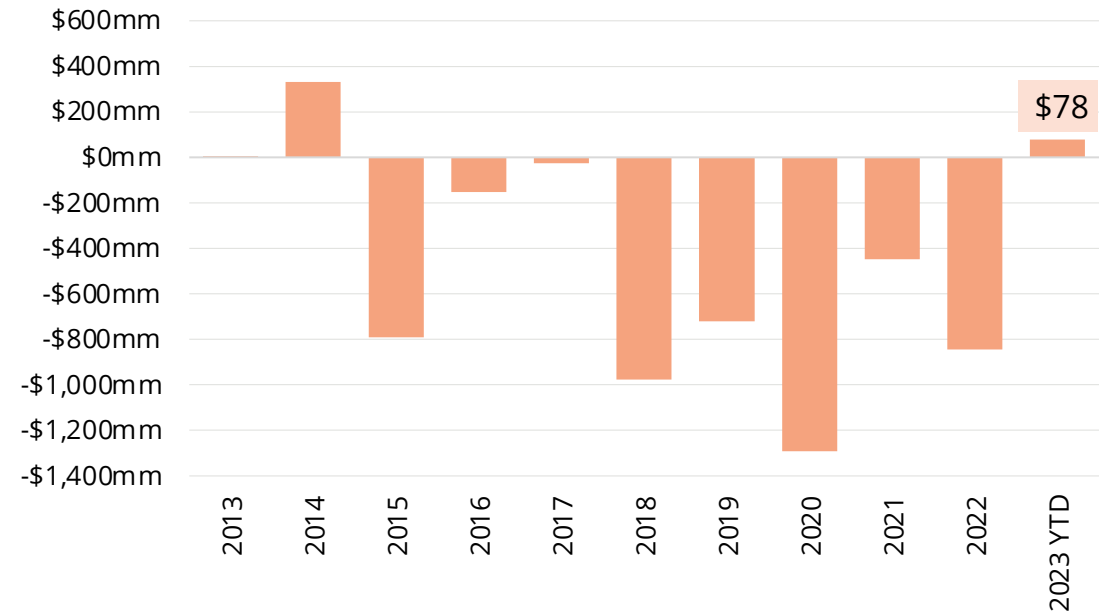
\$25.69mm

Institutional net acquisitions – YTD 2023



\$78.25mm

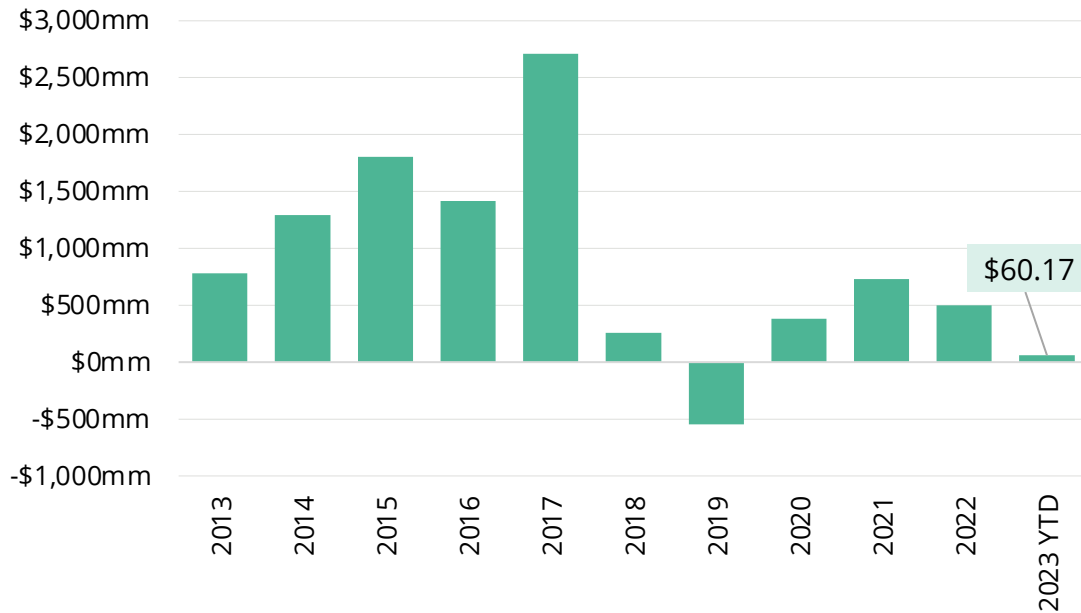
REIT/Listed net acquisitions – YTD 2023



Capital Flows

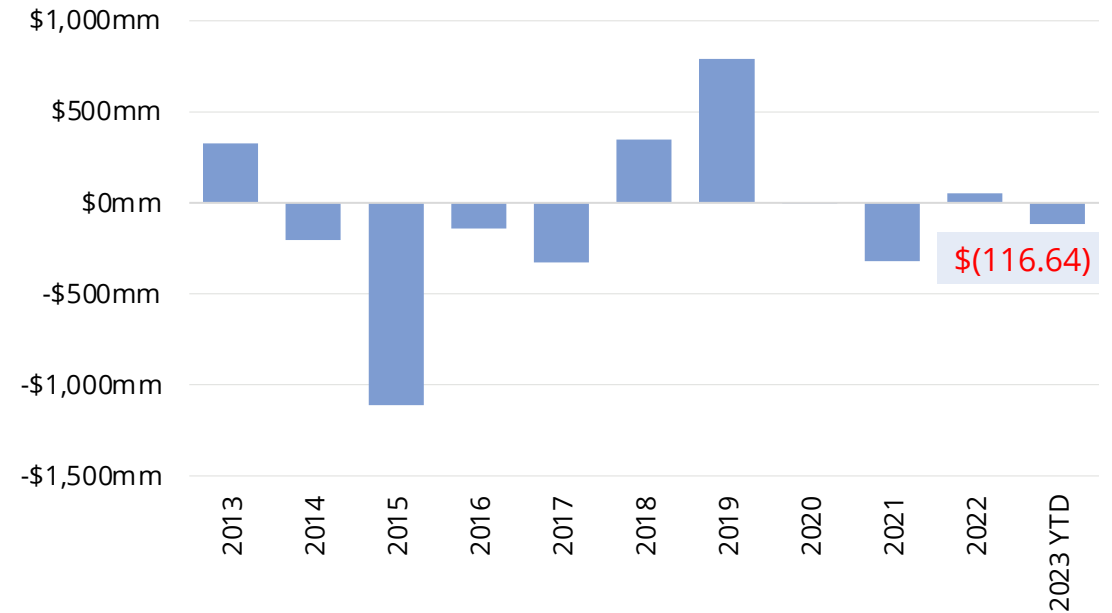
\$60.17mm

Cross-Border net acquisitions – YTD 2023

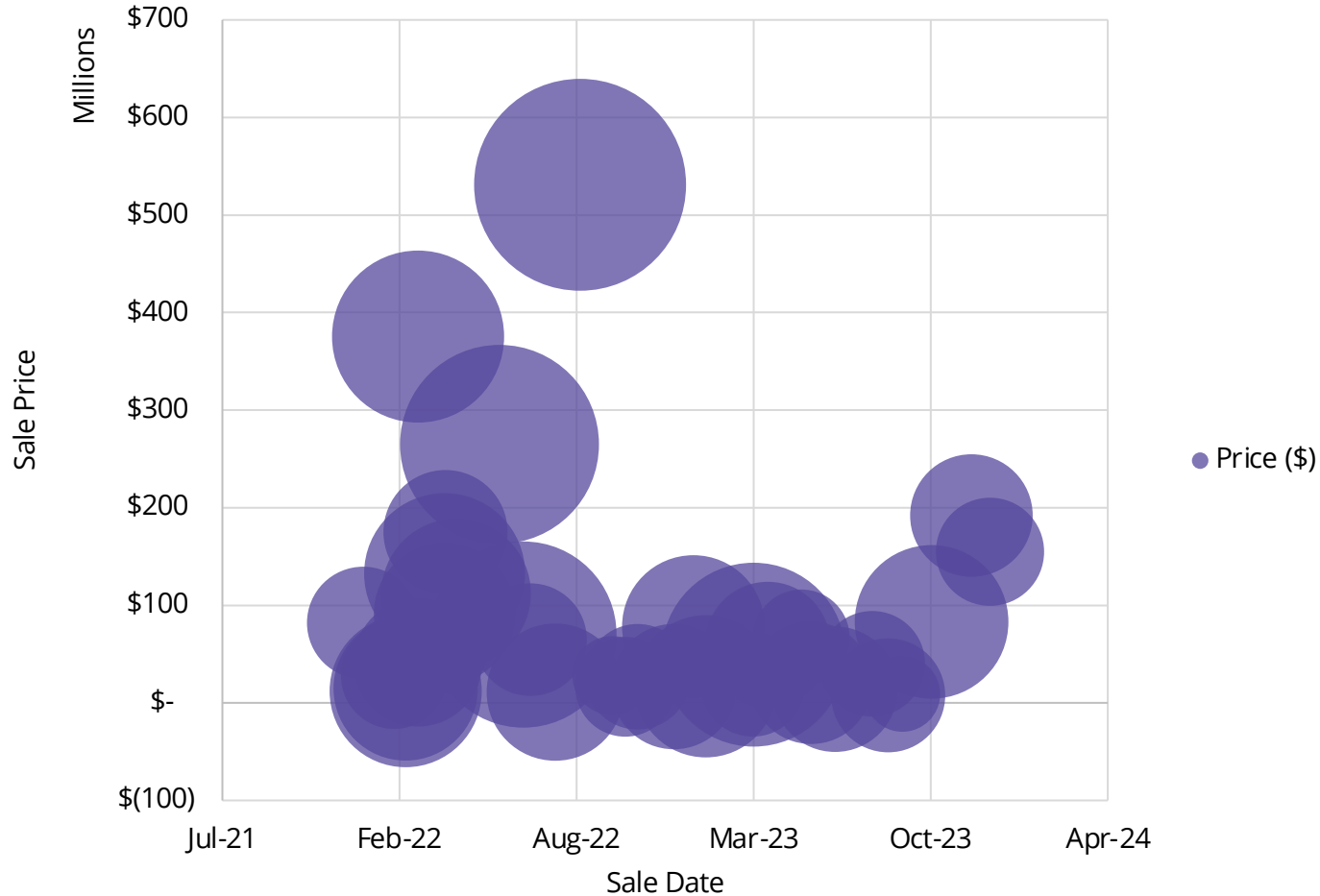


-\$116.64mm

Private net acquisitions – YTD 2023



Transaction History



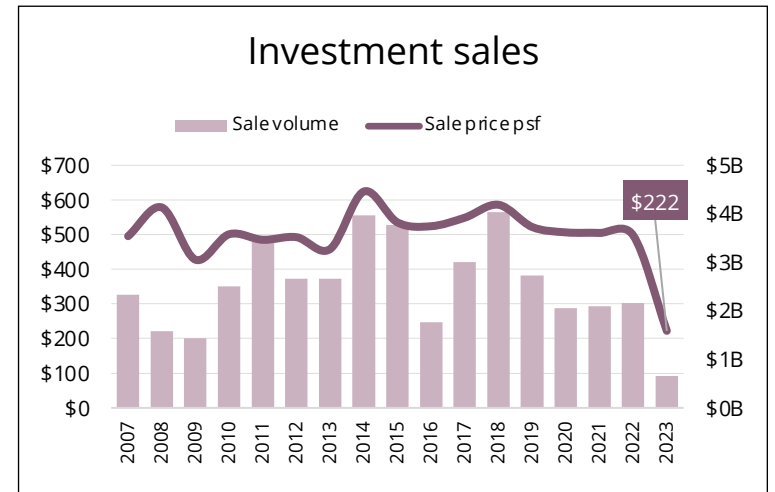
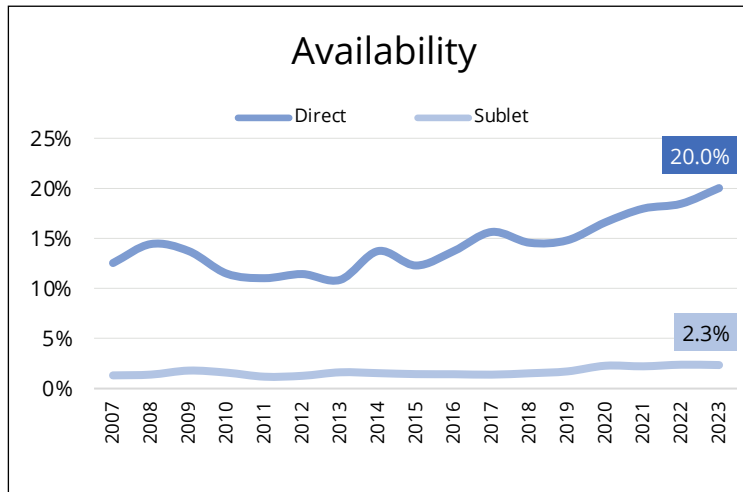
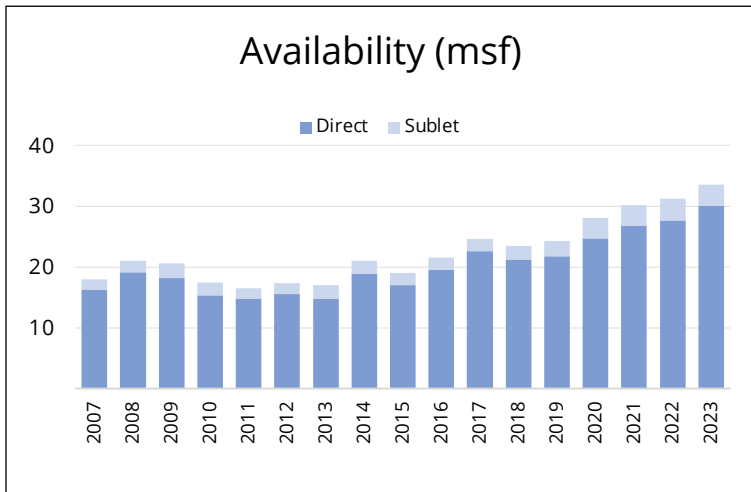
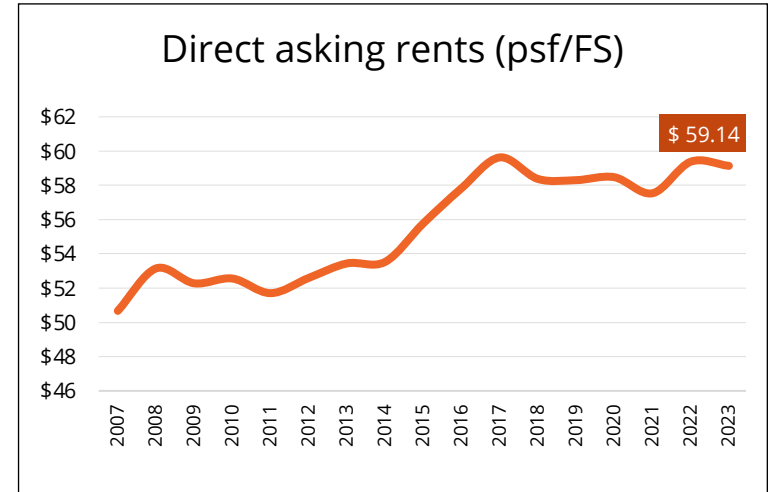
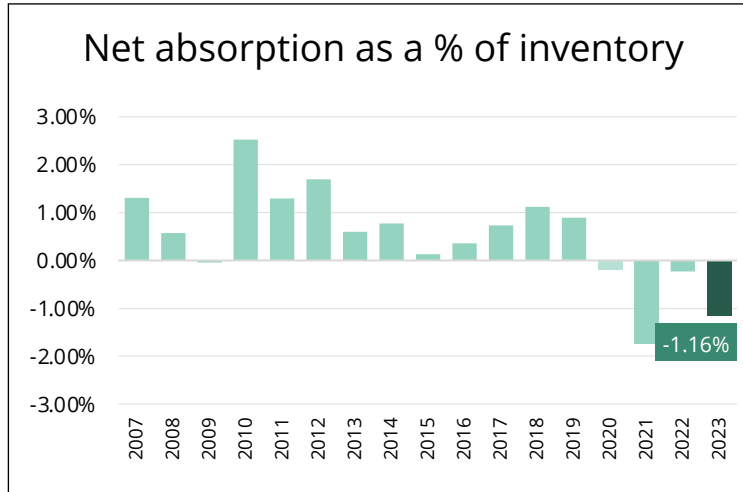
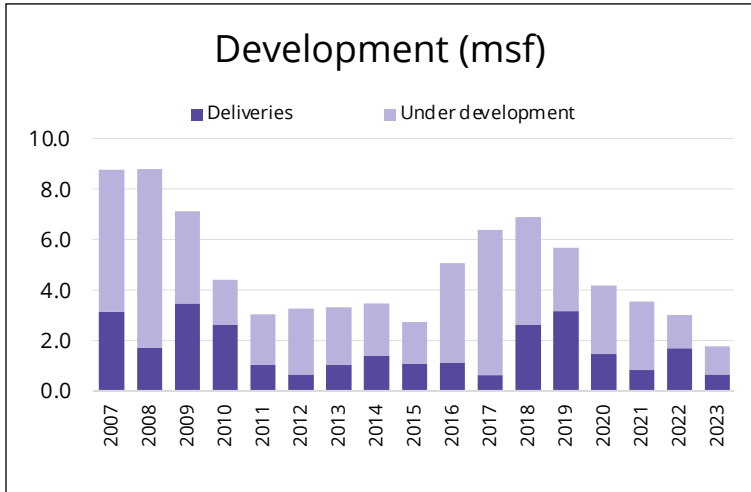
DC has not seen a sale over \$200 Million this year, despite observing several in 2022. Several significant user sales occurred in 2023, with Kaiser Permanente buying their building, and USC purchasing a building for educational uses.

The dots represent executed sales since 2022, with the size of the dot representing Price per Square foot.

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
Smithsonian Institution	750 9 th St NW	East End	Nov 2023	133,984	Renewal	Direct
United States Federal Aviation Administration	950 L'Enfant Plz SW	Southwest	Oct 2023	99,985	Renewal	Direct
Cohen Milstein	1100 New York Ave NW	East End	Nov 2023	46,709	Renewal	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Kaiser Permanente	700 2 nd St NE	Nov 2023	510,406	\$197,750,000	\$387	PGP, Fisher Brothers
Henderson Park	1250 Maryland Ave SW	Dec 2023	529,354	\$154,850,000*	\$293*	LNR Partners

Reflects amount on deed

Top projects under development

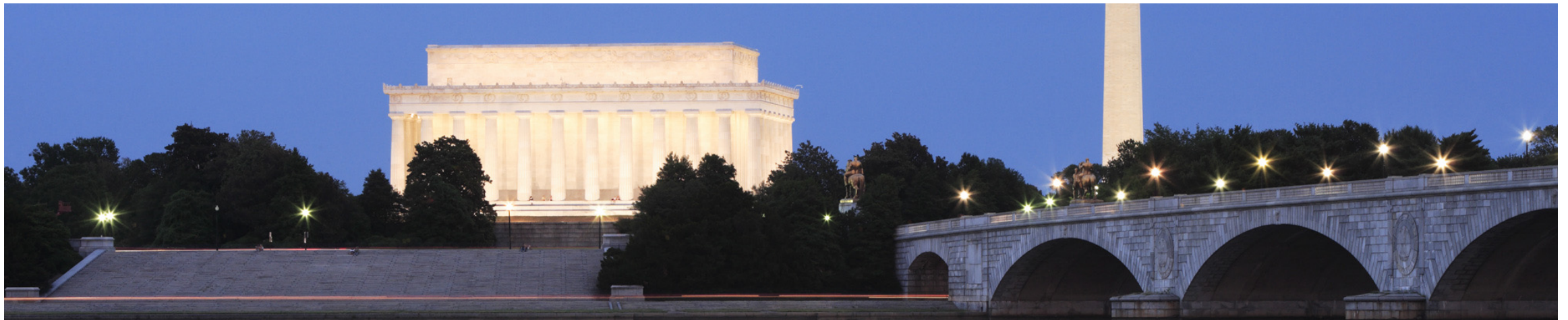
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
600 5 th St NW	East End	2026	399,617	50%	Stonebridge, Rockefeller
1700 M St NW	CBD	2024	334,000	58%	Skanska

Washington DC Office Market Stats

Submarket Name	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Capitol Hill	8,849,072	183,515		18.8%	2.6%	21.4%	15,902	0.18%	\$ 70.79
CBD	39,423,446		334,000	21.7%	2.2%	23.9%	-713,865	-1.81%	\$ 59.57
Dupont Logan Shaw	6,285,801			13.7%	0.9%	14.7%	64,586	1.03%	\$ 55.52
East End	52,159,341		399,617	23.9%	2.9%	26.8%	-985,125	-1.89%	\$ 61.09
Georgetown	2,824,215			30.7%	2.3%	33.0%	-240,607	-8.52%	\$ 52.27
Navy Yard	4,782,590			15.9%	3.1%	19.0%	-28,414	-0.59%	\$ 59.25
NoMa	7,998,680			15.8%	1.3%	17.1%	-157,332	-1.97%	\$ 49.84
Northeast	2,165,360		32,251	13.9%	-	13.9%	179,051	8.27%	\$ 48.55
Southeast - East of the River	1,161,366	477,200	288,000	6.2%	1.5%	7.7%	433,137	37.30%	\$ 46.07
Southwest	13,350,606			14.2%	0.7%	14.9%	-285,136	-2.14%	\$ 52.56
Upper Northwest	5,266,569		41,000	13.7%	3.2%	16.8%	-5,838	-0.11%	\$ 43.15
Market total	148,937,344	660,715	1,094,868	20.0%	2.3%	22.4%	-1,726,256	(1.16%)	\$59.14

Washington, DC office market stats by class

	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Trophy	36,655,558	521,515	329,000	14.5%	4.8%	19.3%	88,182	0.93%	\$95.96
Class A	91,938,705	139,200	32,251	20.4%	2.9%	23.3%	415,704	1.13%	\$71.19
Class B	10,891,350			20.8%	2.1%	22.9%	-2,102,787	-2.29%	\$53.62
Class C	9,451,731		733,617	19.2%	1.1%	20.3%	-127,355	-1.17%	\$41.31
Market total	148,937,344	660,715	1,094,868	20.0%	2.3%	22.4%	-1,726,256	(1.16%)	\$59.14



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
information visit **avisonyoung.com**

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