



Washington, DC

Office market report

Q1 2024

**AVISON
YOUNG**

Washington, DC Office Market Trends

\$480mm

YTD investment volume

2024 investment sales and recapitalization volume in the DC office market have rebounded after heavily suppressed volume in 2023, which was brought on by a rise in interest rates. This figure represents roughly **73%** of the **\$656mm** recorded in DC in 2023, just in the first quarter of 2024. Investors are seemingly approaching the marketplace with more conviction than in previous years. Note, that this figure only represents investment sales and recapitalizations, no user sales or entity-level portfolio sales.

28%

Leasing velocity attributable to Trophy & Class A

While the flight-to-quality trend has been a dominant one in the past several quarters, leasing velocity attributable to Trophy and Class A properties tallied its lowest amount since 2022 in Q1 2024. Several large renewals in Class B properties contributed to this in Q1 2024, such as the Washington Post at 1301 K St NW and Finnegan at 901 New York Ave NW.

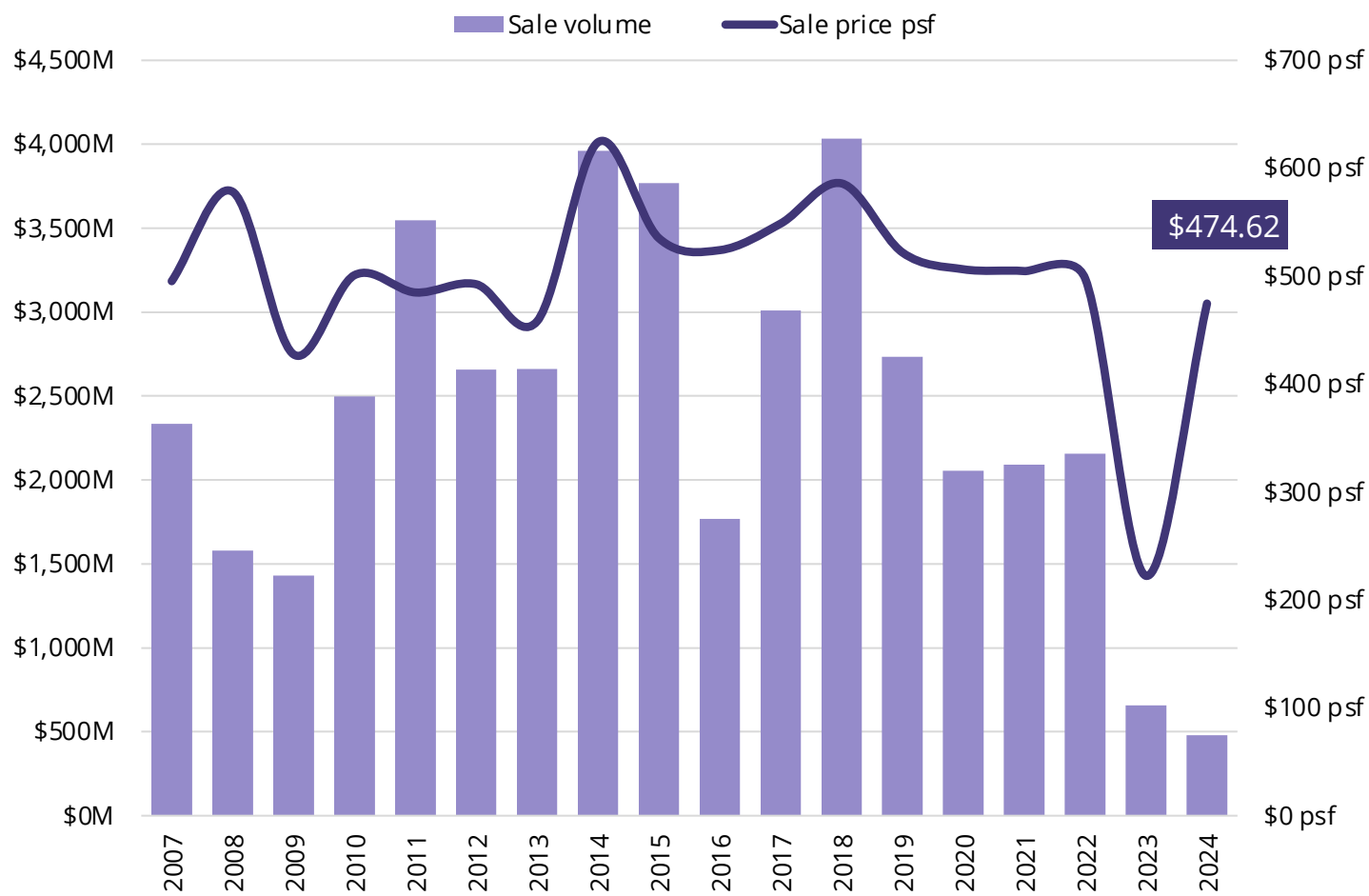
The limited development pipeline was a major contributory factor, as large tenants facing expirations have very few, if any, options to upgrade their space in terms of quality, offering the requisite space.

1.09mm

Total office space under development/renovation

The Washington, DC office development pipeline sits at its lowest level in over 20 years. This is driven by structural shifts as it relates to office utilization as well as cyclical macroeconomic issues driving up the cost of capital for levered developers. Also contributing to this is elevated construction pricing, which makes development deals increasingly difficult to underwrite given today's office leasing conditions.

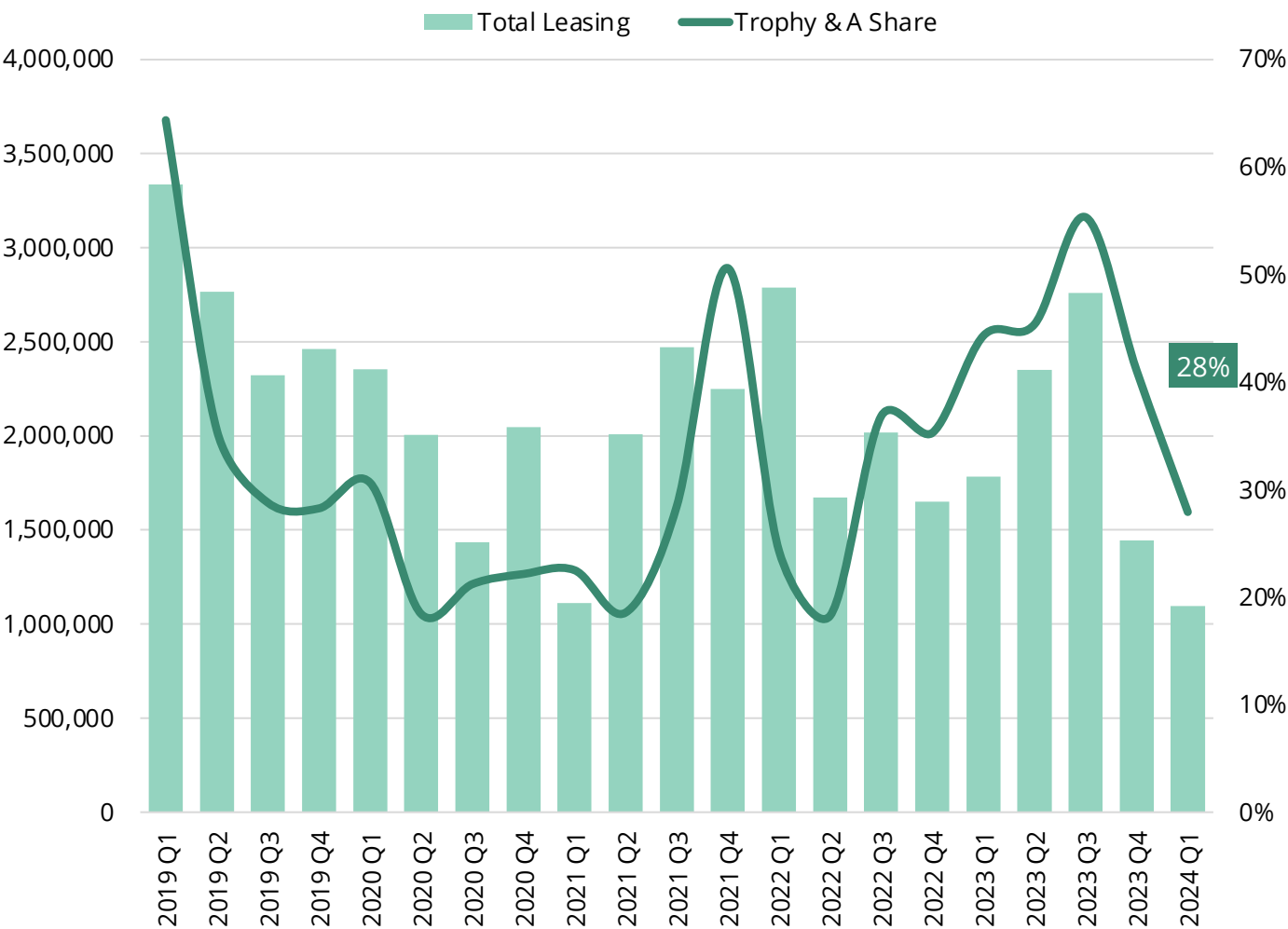
DC Investment Sales



As companies approach their return-to-office efforts with more conviction, the structural demand element of office investment is becoming clearer for investors. However, coupled with this is the cyclical, interest-rate-driven phenomenon and increased cost of capital.

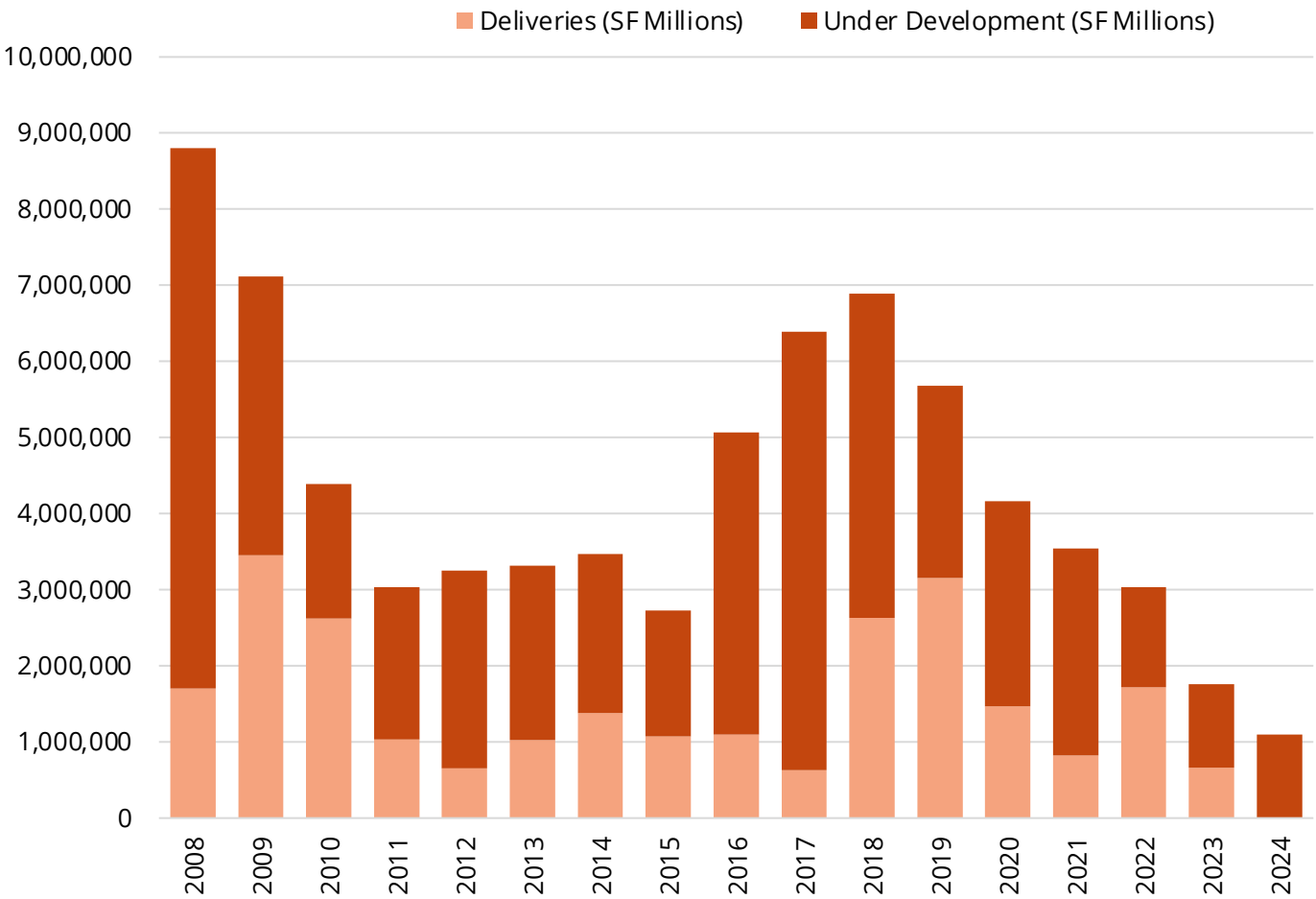
That said, investment in the DC office sector has rebounded after a slow 2023, albeit below historical norms.

DC Flight to Quality



While the flight to quality has been a notable phenomenon across Washington, DC even before the pandemic, lack of liquidity coupled with questions, as it relates to the future of office utilization, has led to a pause in the office development pipeline for the foreseeable future. This lack of new product has caused a flurry of large renewals in the commodity sector, which accounted for a large portion of leasing activity in Q1 2024.

DC Development Pipeline



The suppressed development pipeline will have ramifications in leasing markets, for years to come. Options for large tenants in new construction are virtually non-existent at present, despite record high vacancy.

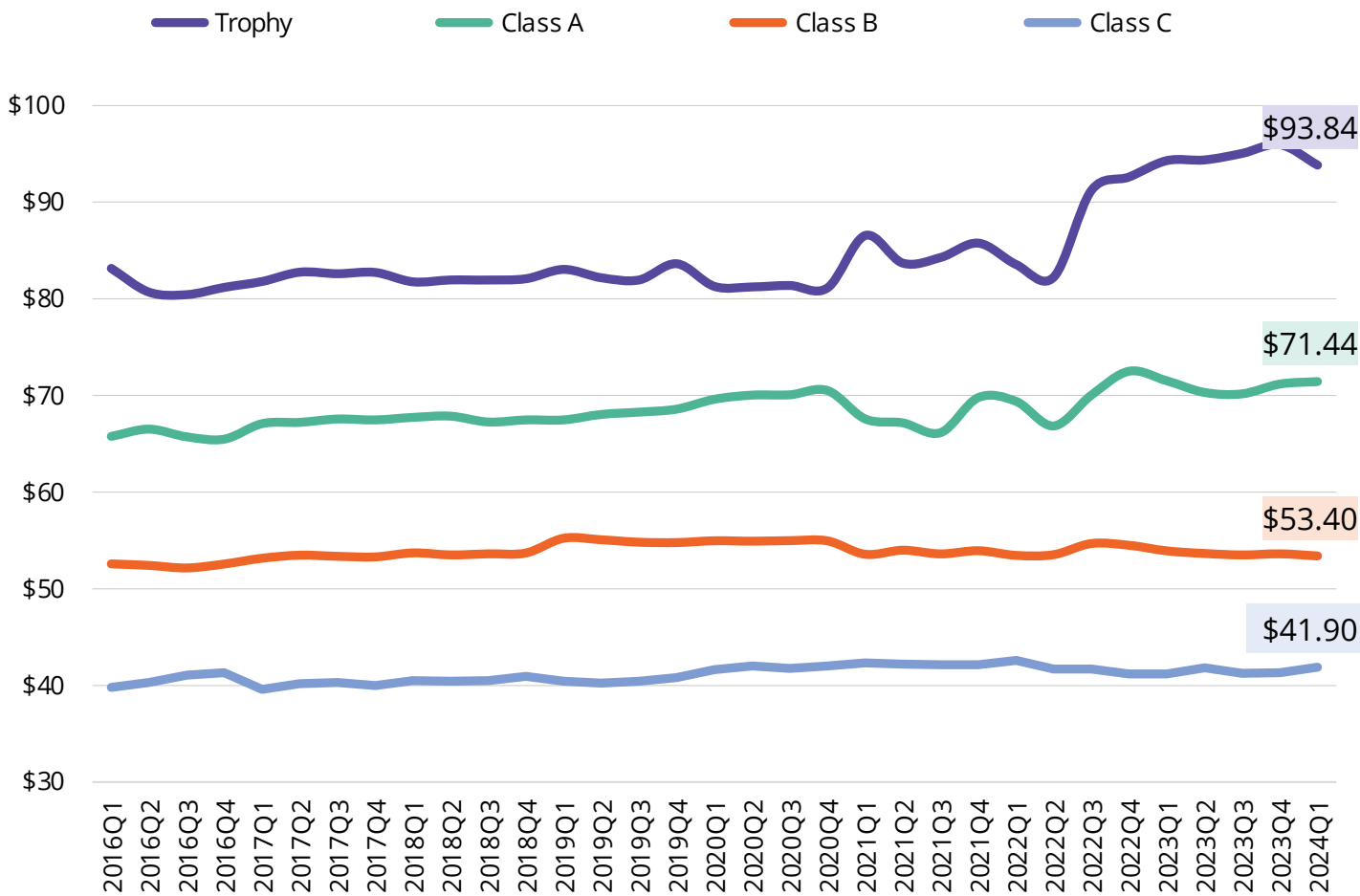
The aforementioned renewals for Washington Post and Finnegan are representative of this trend.

Occupier trends

Let's examine more
prevailing office trends.



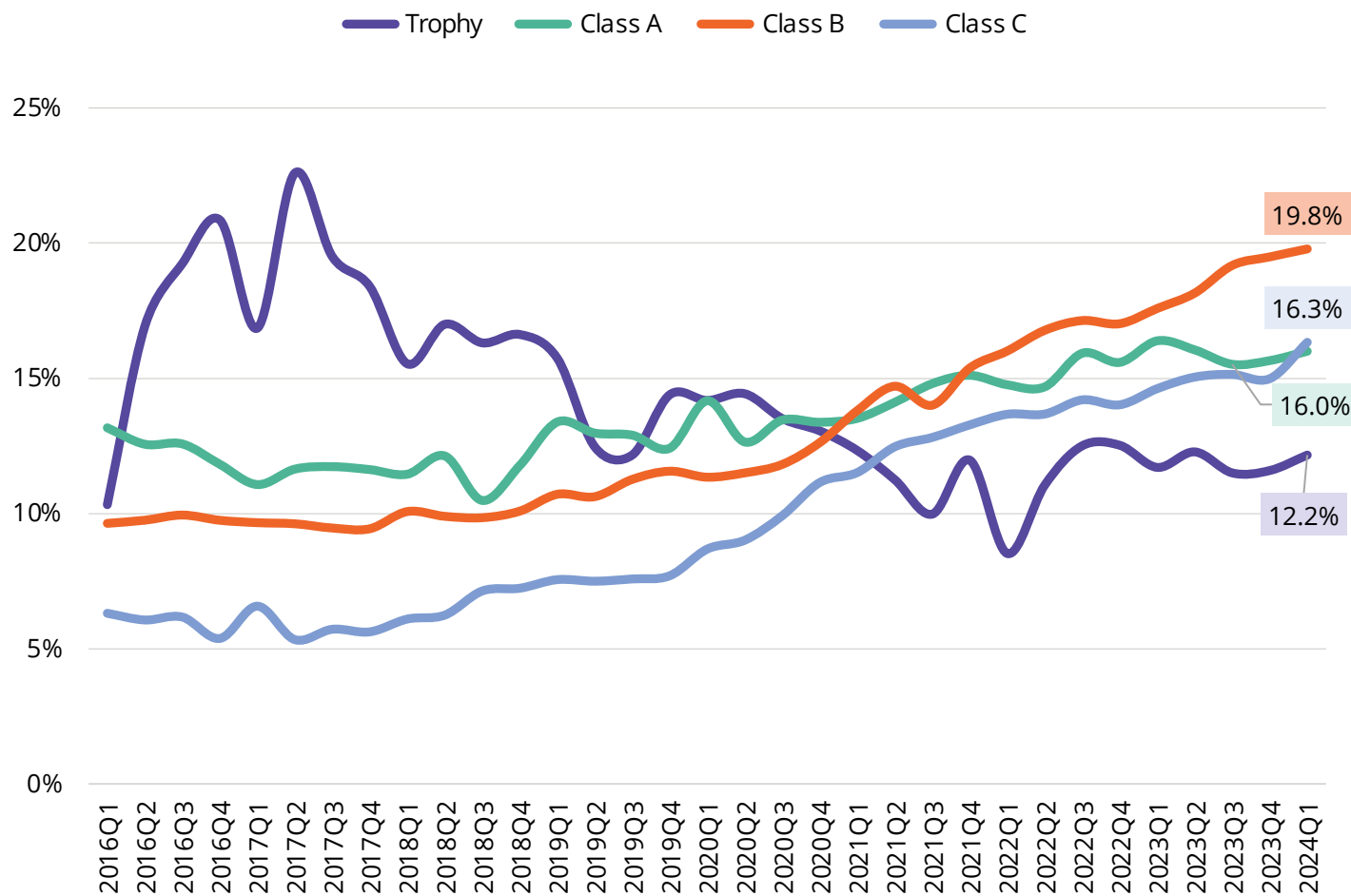
Average Asking Rent FS by Class



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.

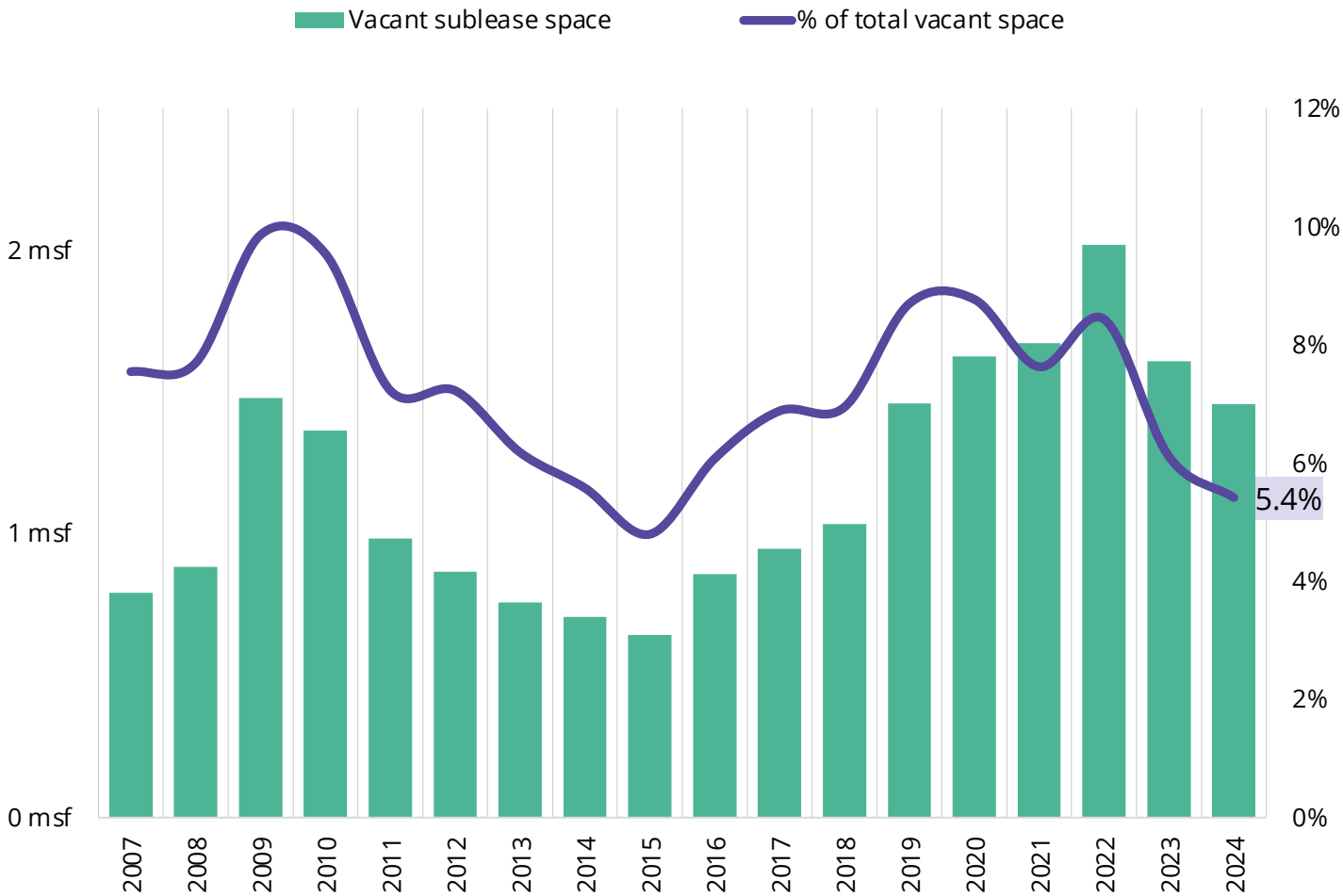
The recent drop in Trophy asking rent is purely a function of the actual space available generally being the lower rent space within a building.

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.

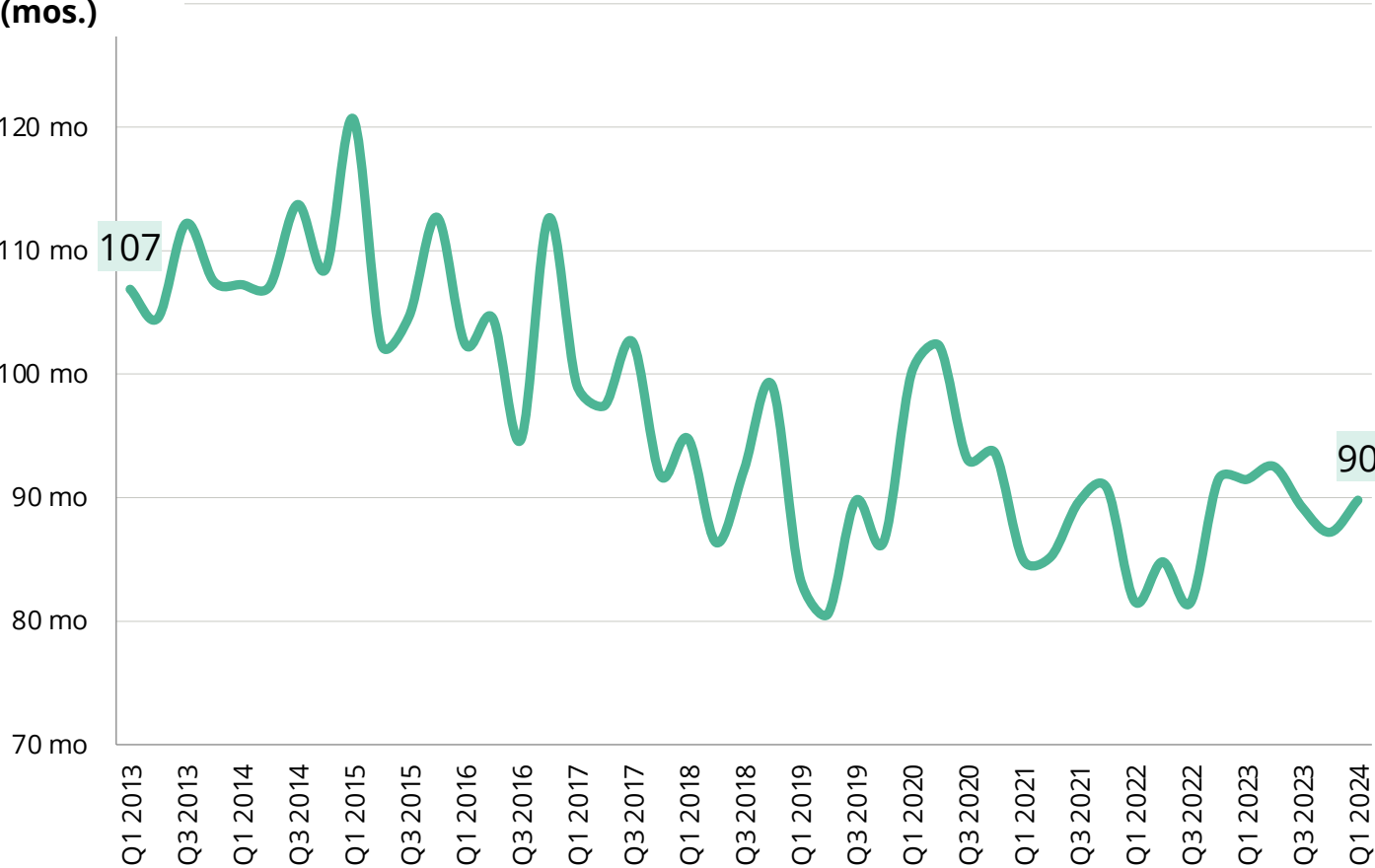
Available Sublease Space



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 has been on a steady downward trend since 2022.

Average Term Length

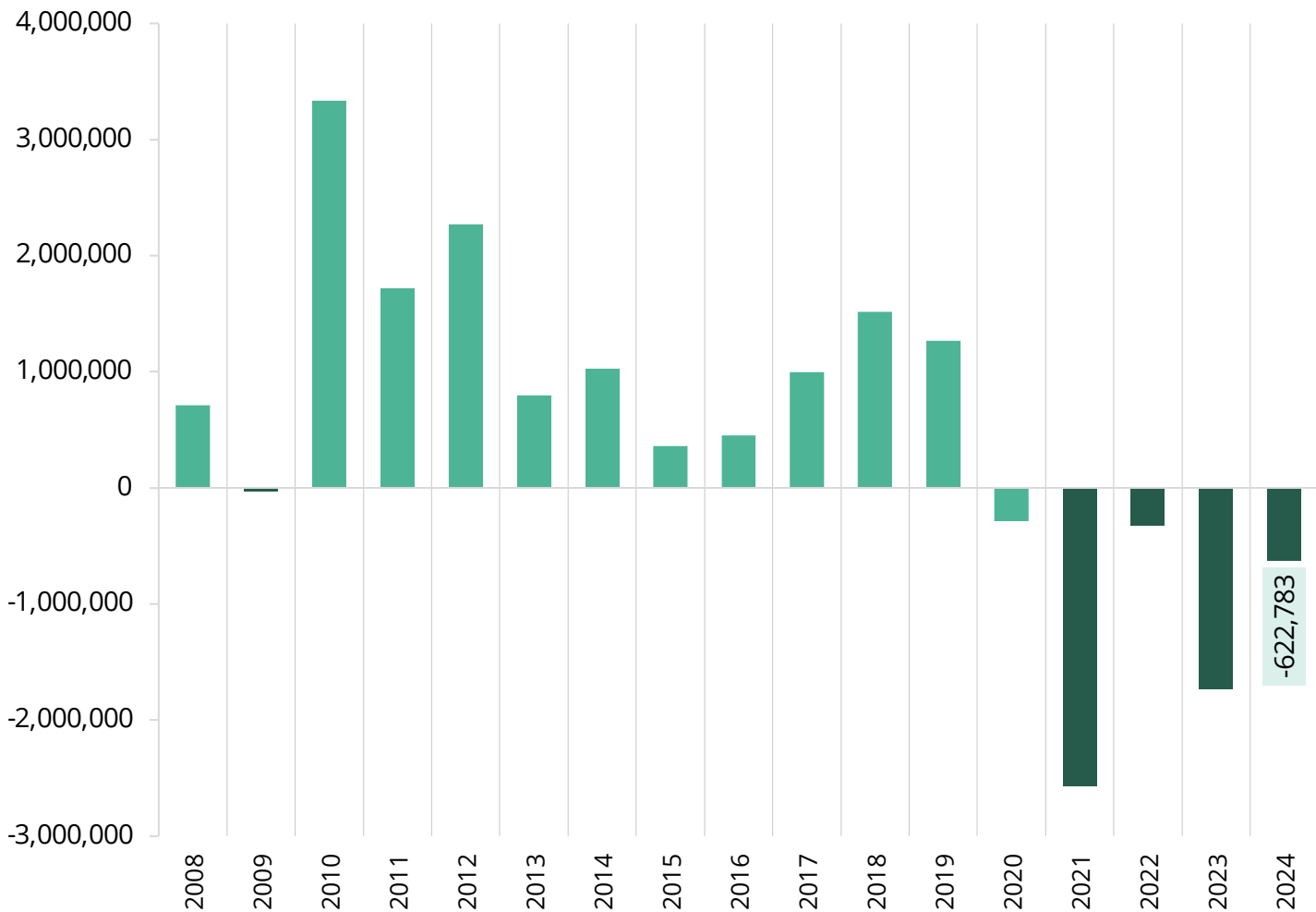
Lease term
(mos.)



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.

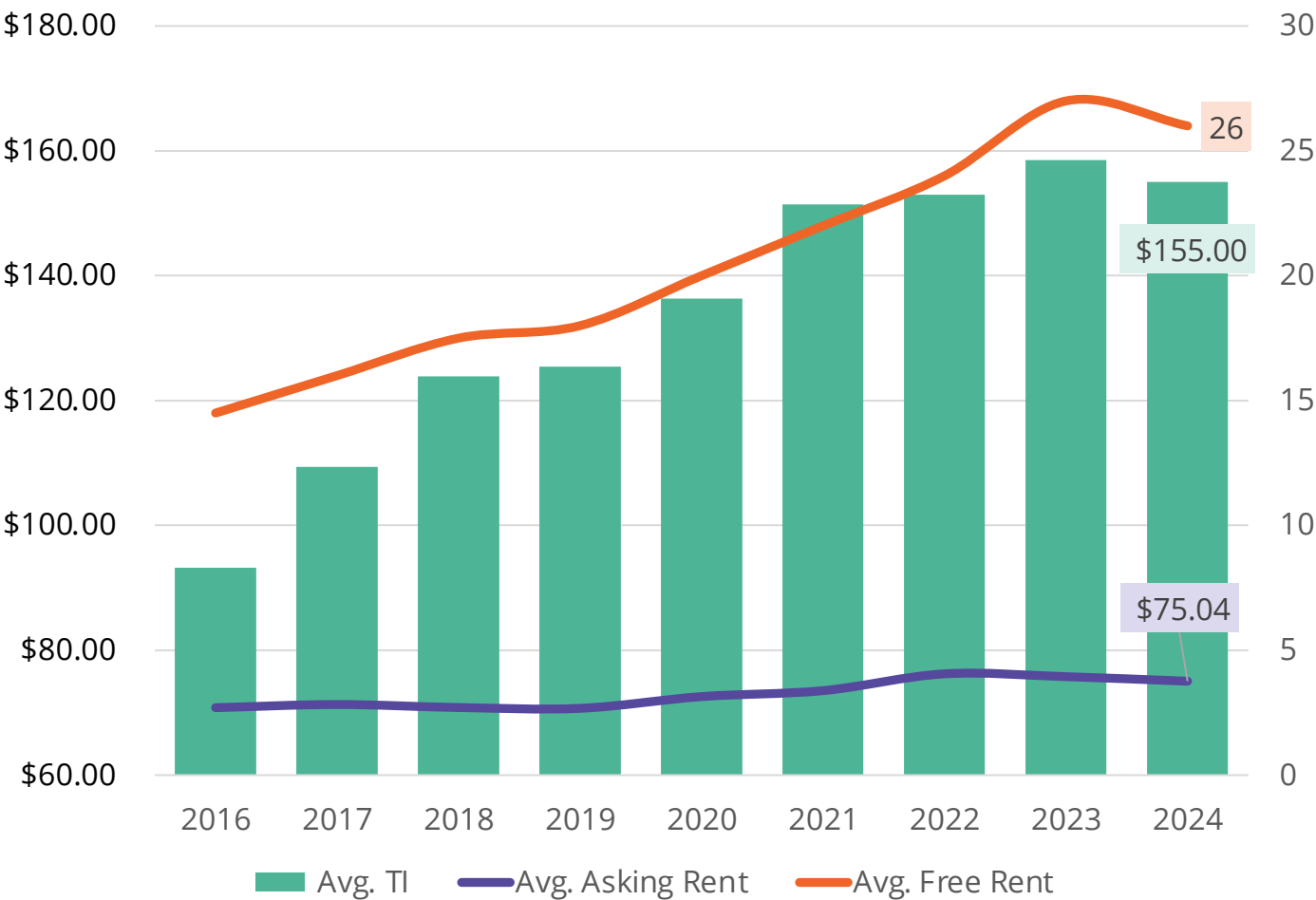
Spec suite leasing activity has increased drastically, albeit, with generally shorter term length.

Absorption (sf)



Following suit with many major office markets, negative absorption remains a common theme in Washington, DC. This comes as a result of many companies correcting their office footprint to accommodate hybrid and remote working arrangements.

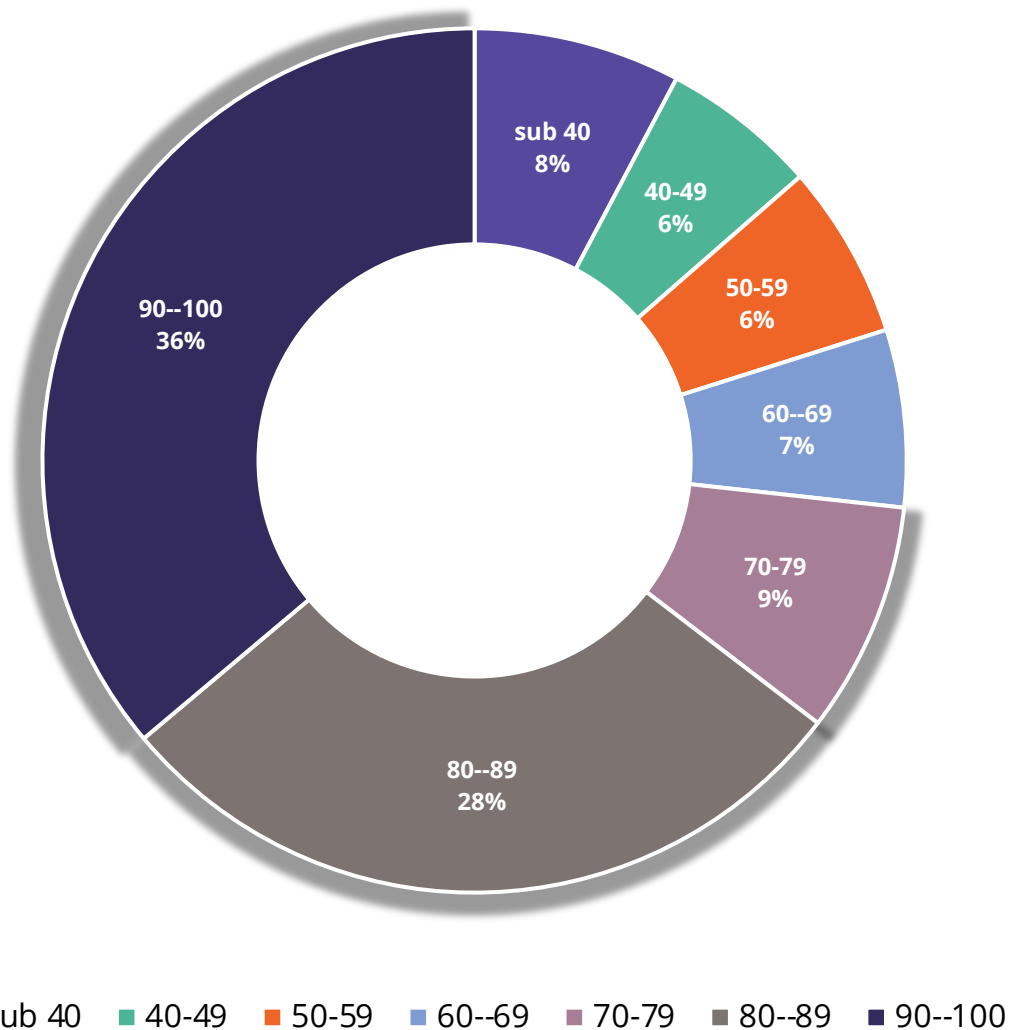
Asking Rents vs. Concessions (Trophy & Class A)



While it remains a tenant-favorable market, concessions in the Trophy and Class A segments of the market have begun to show signs of tapering, likely a function of heightened renewal activity.

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

Flight to Quality (2021-Pres)



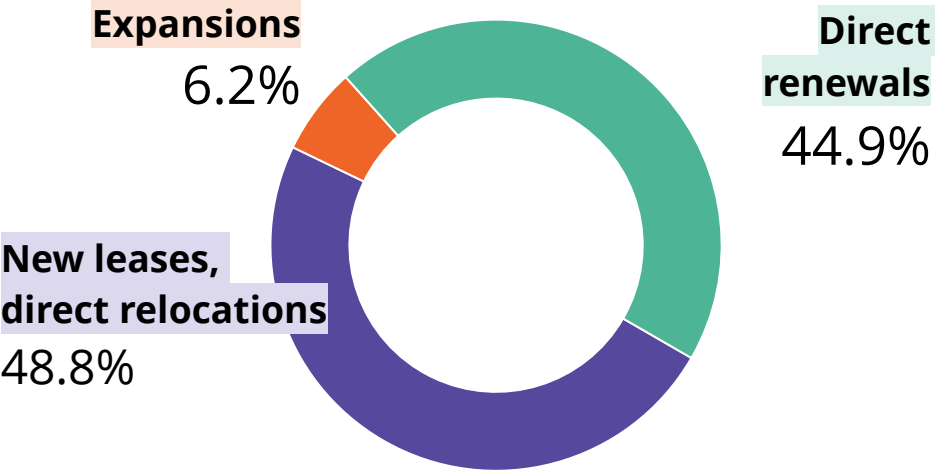
Since 2021 in Washington, DC, office leasing has been concentrated at the top of the market. Avison Young has developed a proprietary scoring model, that assigns buildings a score based on –

- 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).

Relocations vs. Renewals (by sf leased)

2018 - 2020



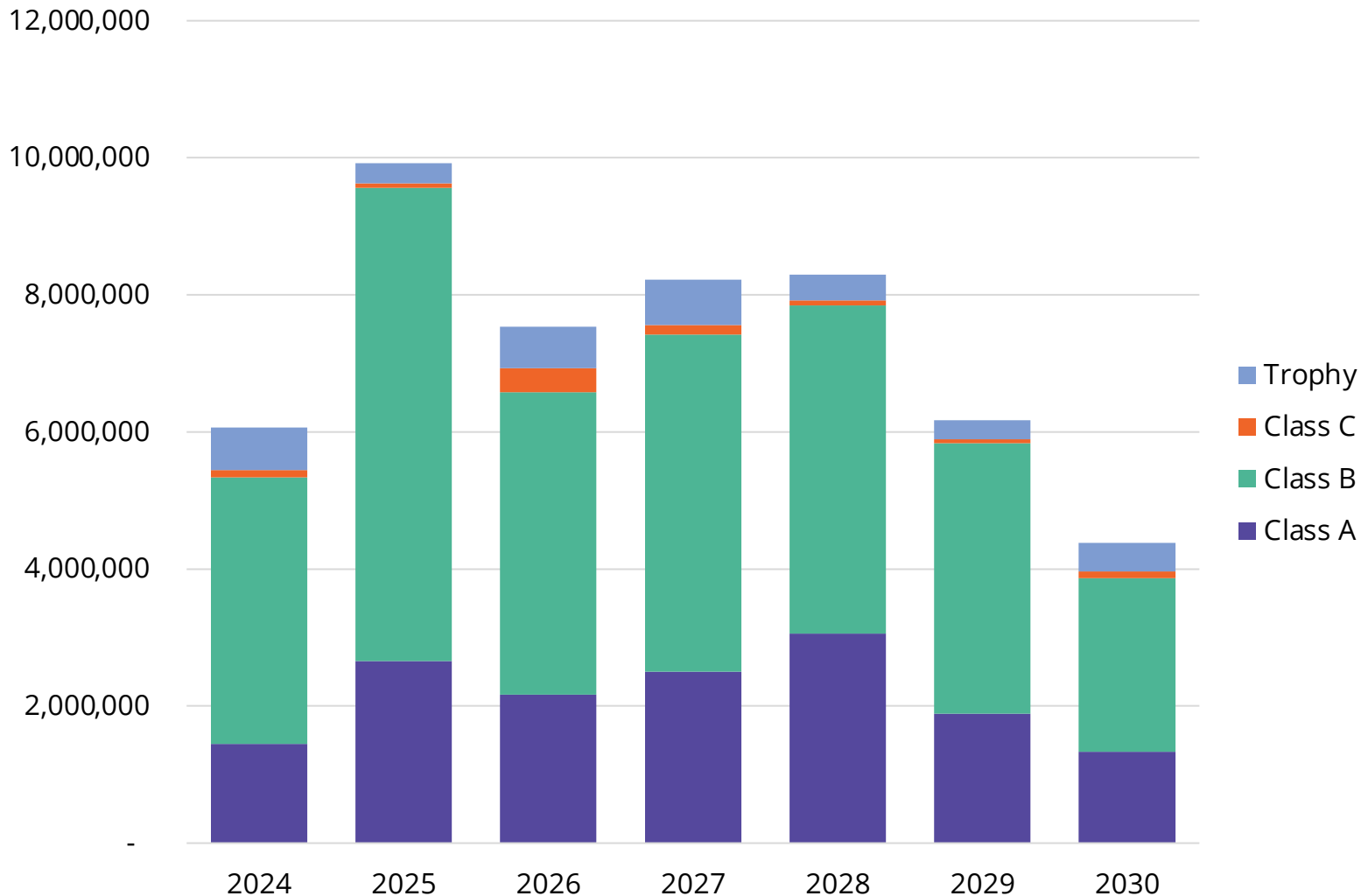
2020 - Pres



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

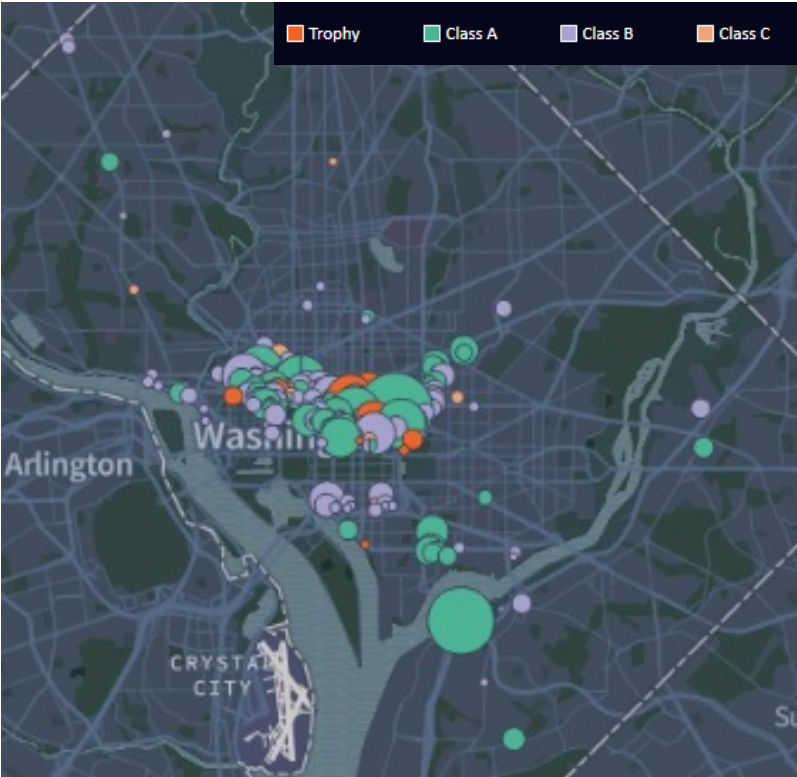
However, recent tightening in the Trophy segment of the market has driven increased renewal activity.

Lease Expirations

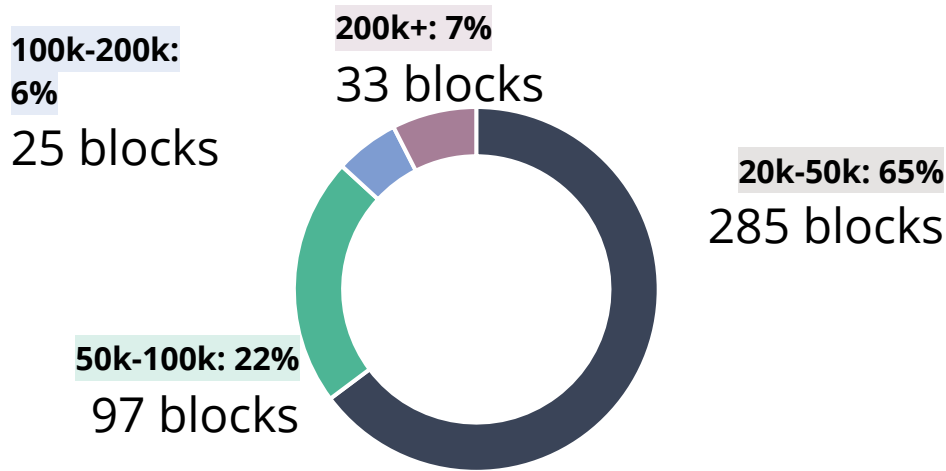


Washington, DC has over 6 million sf per year of expiring leases until 2029, most of which is in the Class B segment of the market.

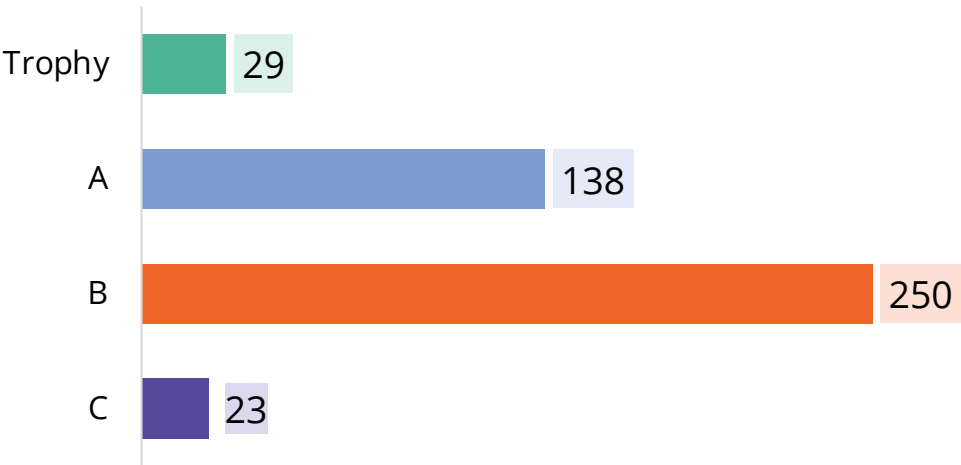
Office Large-Block Availabilities



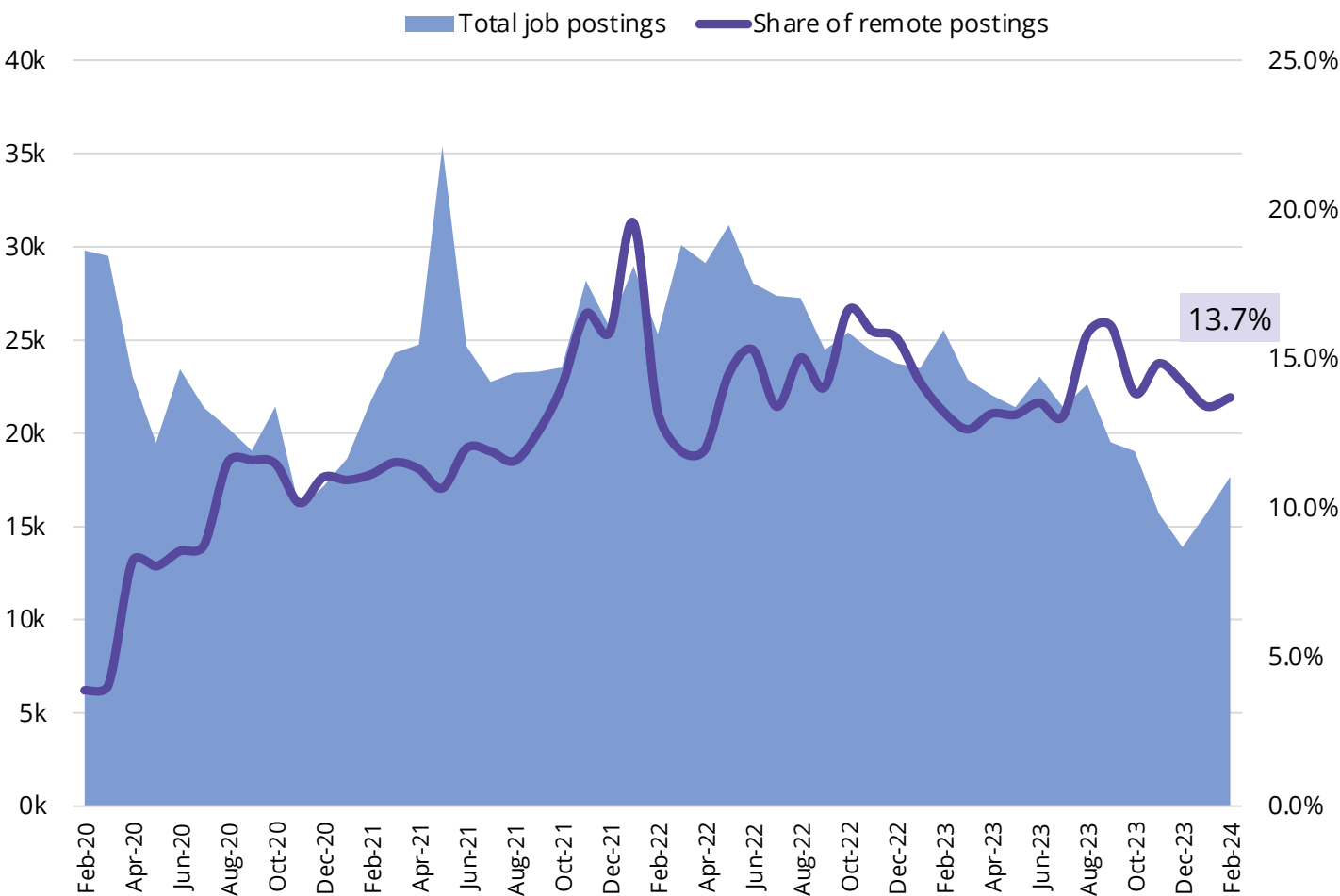
Large-block space size ranges



Large blocks available by Class



Office Job Postings



While Washington, 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.

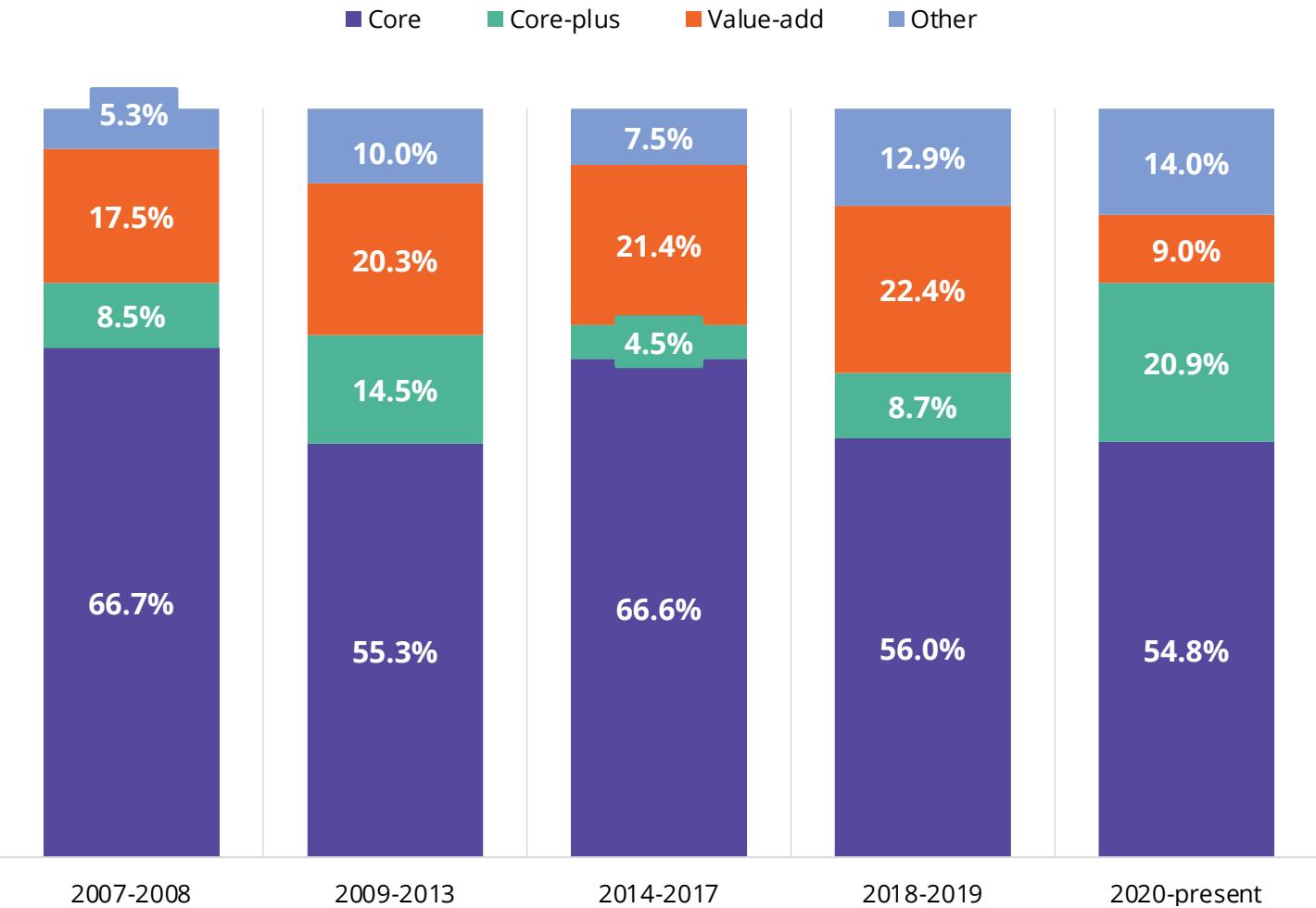
Note: Total job postings includes remote and non-remote jobs
Source: AVANT by Avison Young, Lightcast
Note: remote postings defined as fully remote

Capital Markets trends

Let's examine more investment trends.



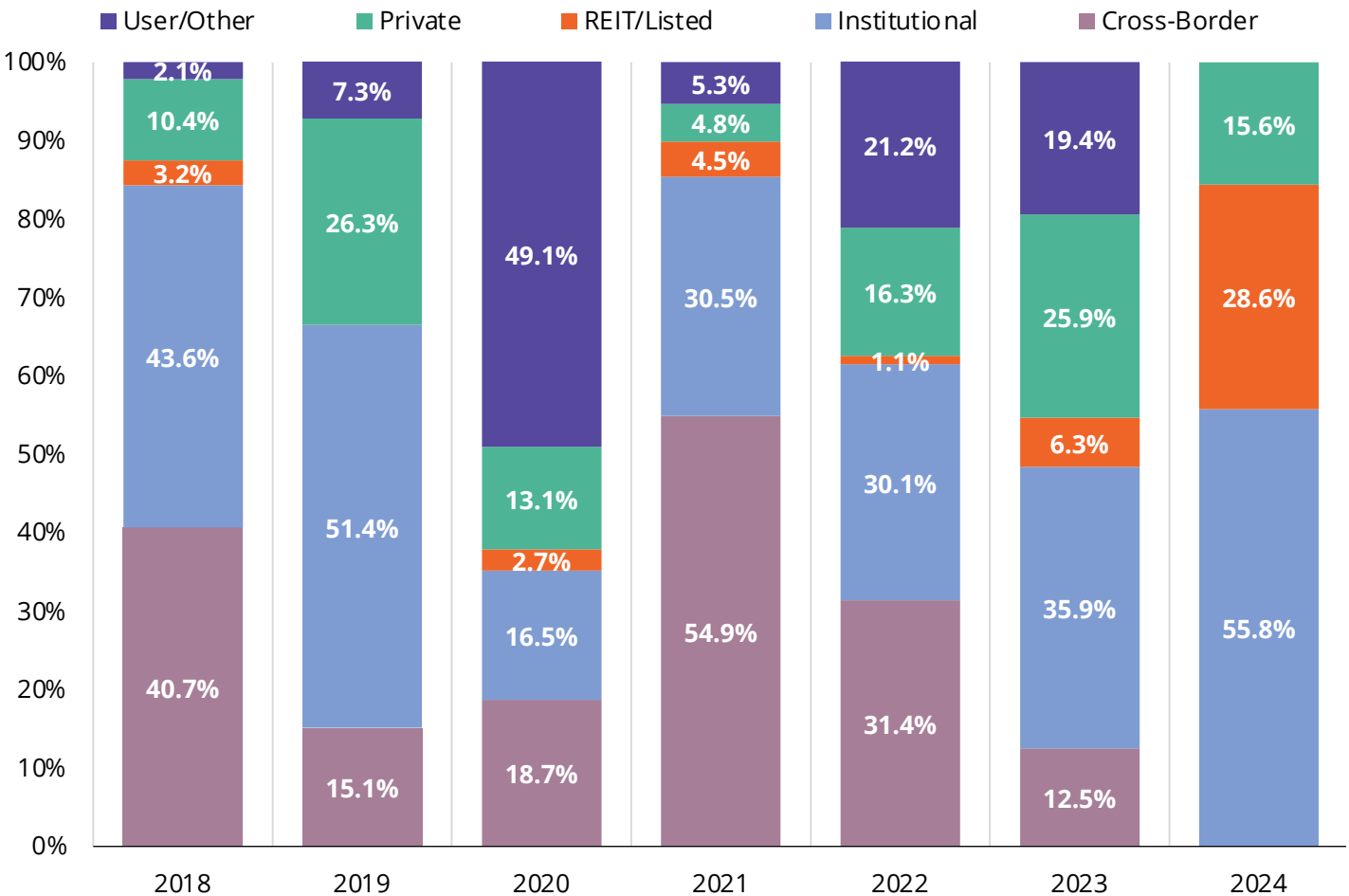
Investment Volume by Asset Profile



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.

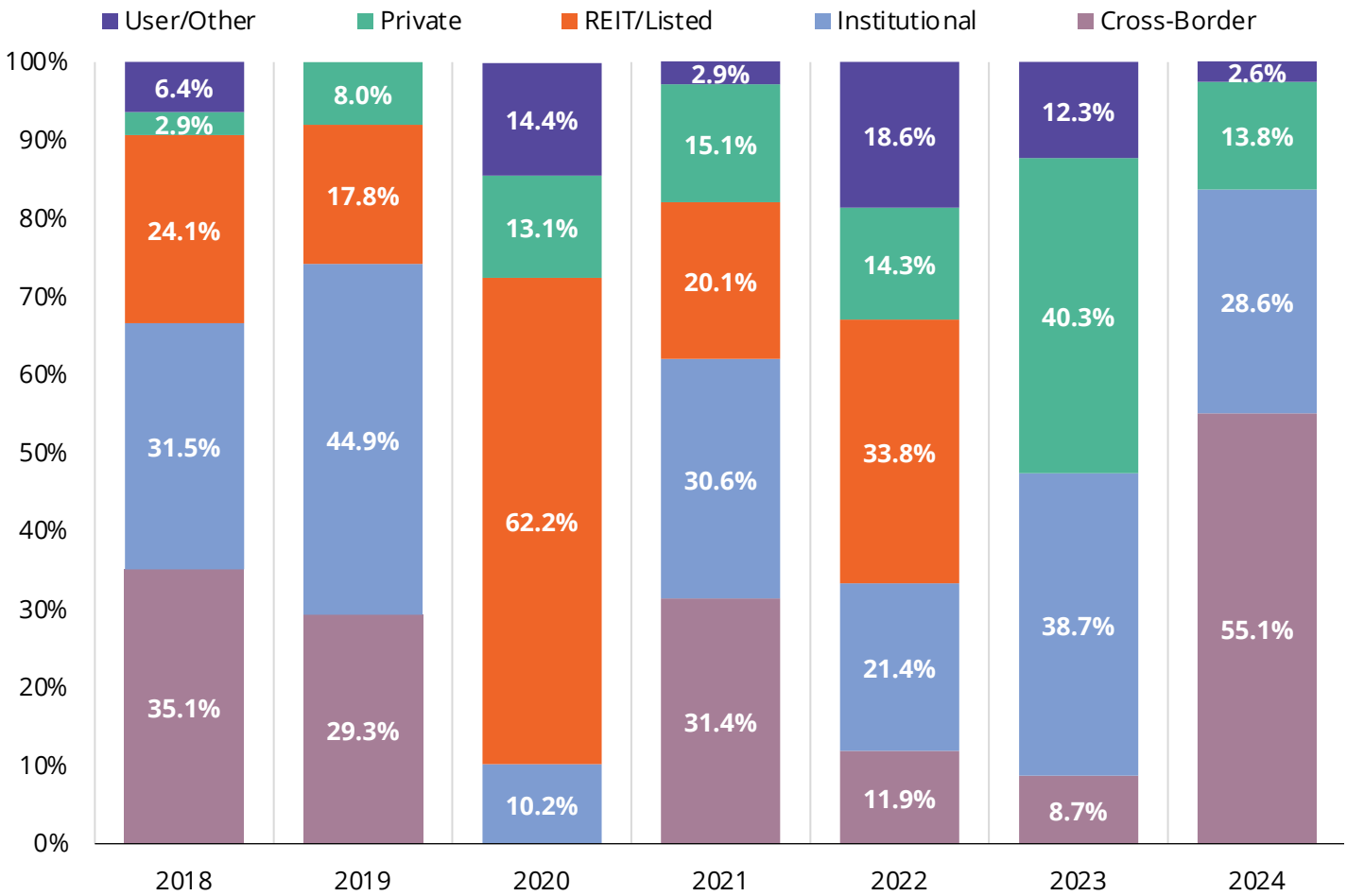
Several recent trades have shown that investors are willing to bet on core asset profiles, albeit at the right price.

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; however, institutional capital has re-approached the market with conviction YTD in 2024, a likely indicator that pricing has bottomed.

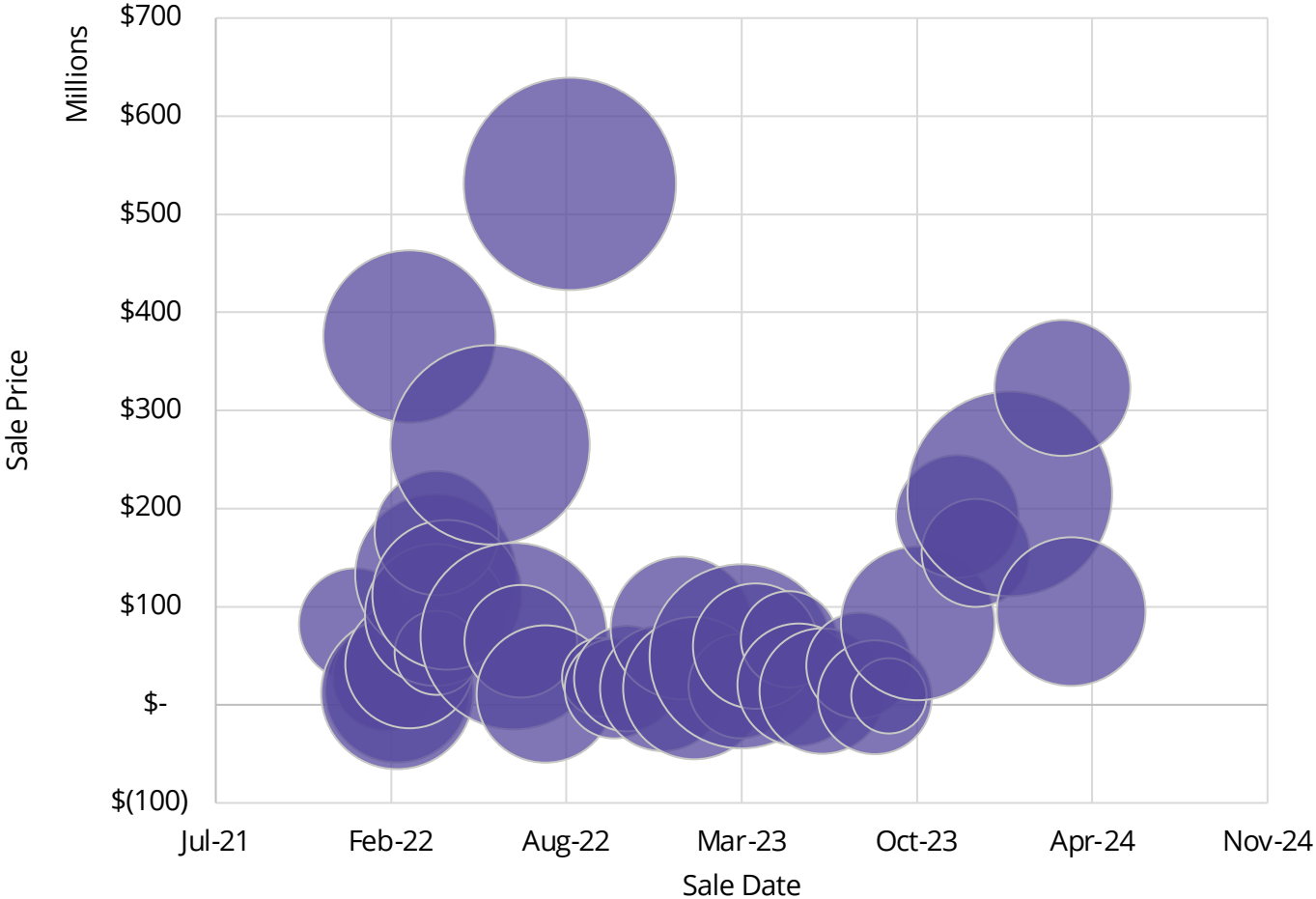
Seller Profiles



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

In 2024, foreign investors have been the primary divestors of DC office buildings, such as Credit Suisse’s sale of 1099 New York Ave., NW.

Transaction History



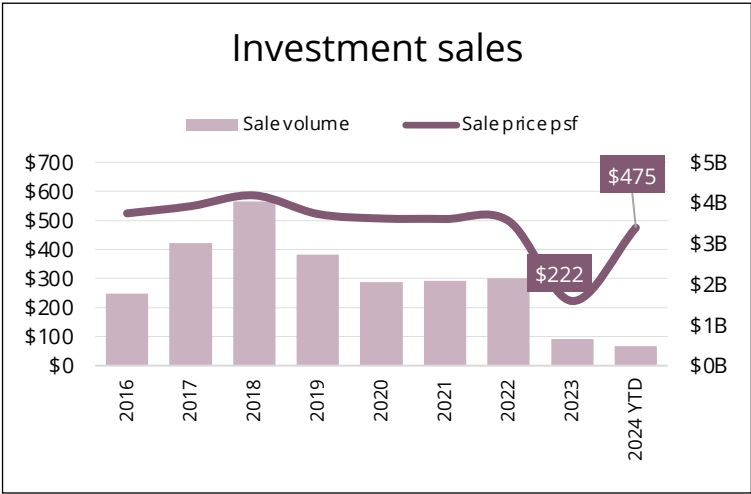
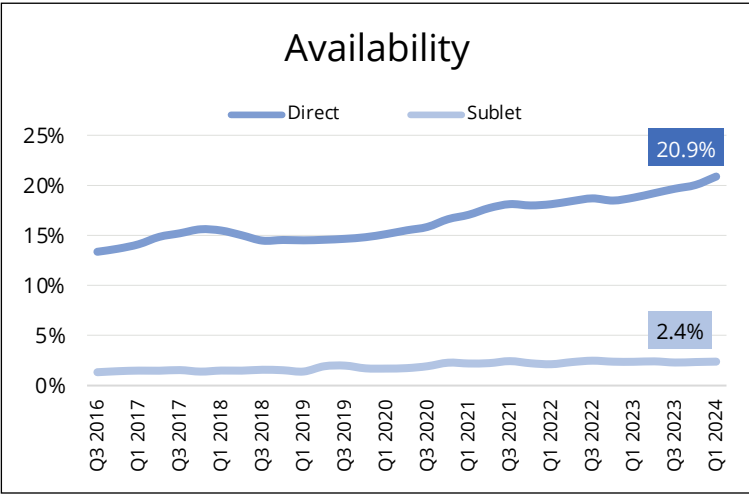
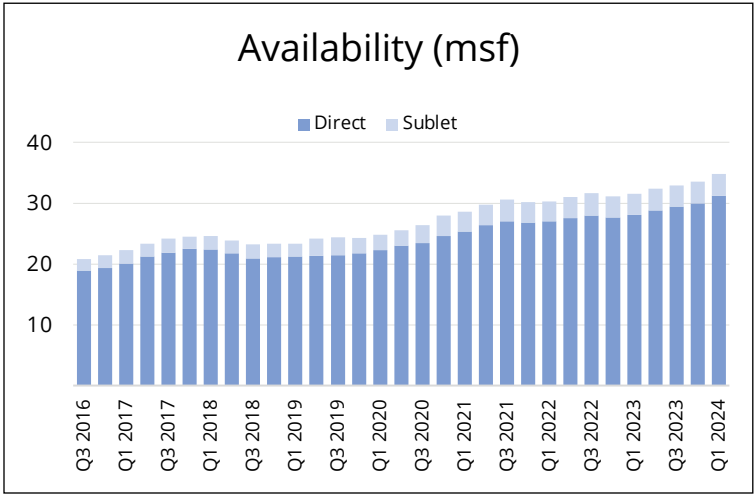
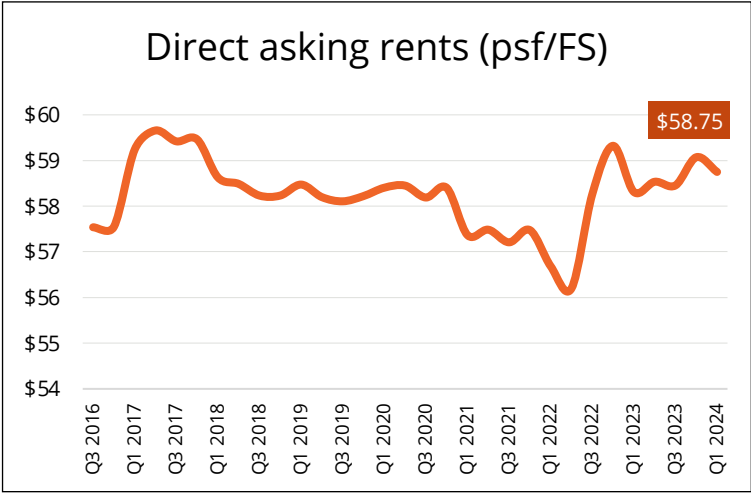
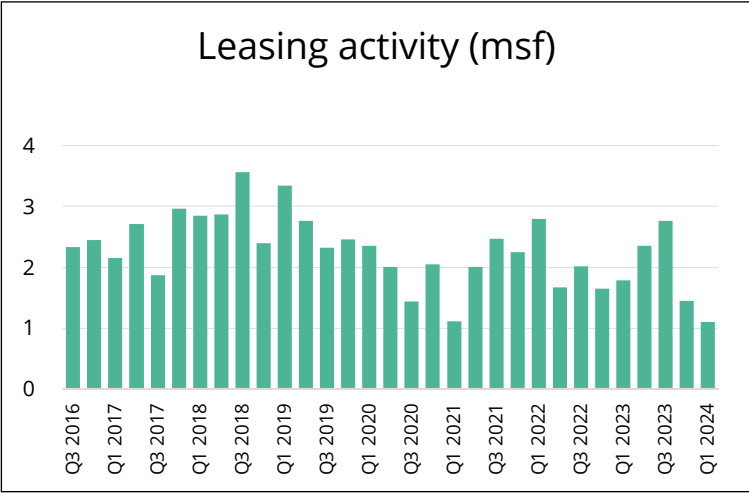
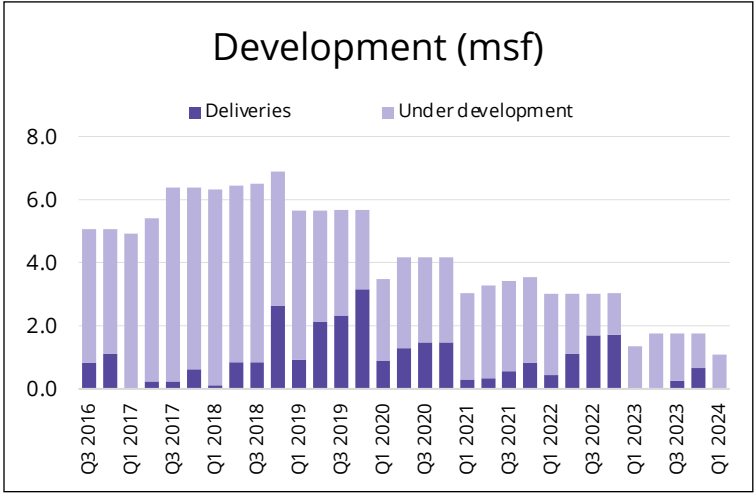
Through the end of the first quarter, 2024, DC has almost eclipsed its 2023 investment sale volume. Several institutional quality assets have traded at compressed valuations, however.

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
Washington Post	1301 K St NW	East End	Jan 2024	306,000	Direct	Renewal
Finnegan	900 New York Ave NW	East End	Jan 2024	214,000	Direct	Renewal
US Customs and Border Protection	90 K St NE	NoMa	Feb 2024	181,000	Direct	Renewal

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Kanden, Quadrangle, FVV	1099 New York Ave NW	Mar 2024	175,079	\$95mm	\$543	Credit Suisse
PRP, Morning Calm Management	701 & 801 Pennsylvania Ave NW	Mar 2024	707,476	\$332mm	\$456	PIMCO, Blackstone

Top projects under development

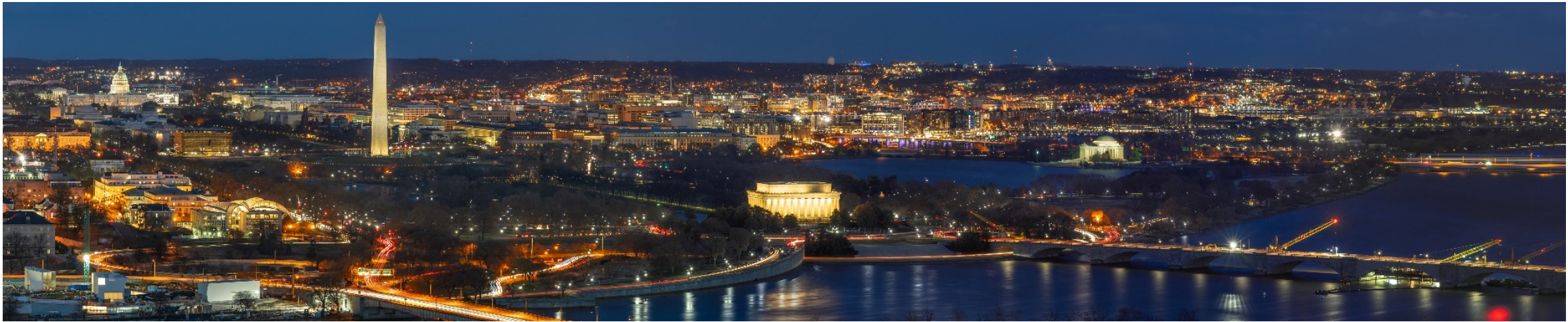
Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
600 5 th St NW	East End	2026	399,617	50%	Stonebridge, Rockefeller
1700 M St NW	CBD	2024	334,000	58%	Skanska

Washington, DC Office Submarket Stats

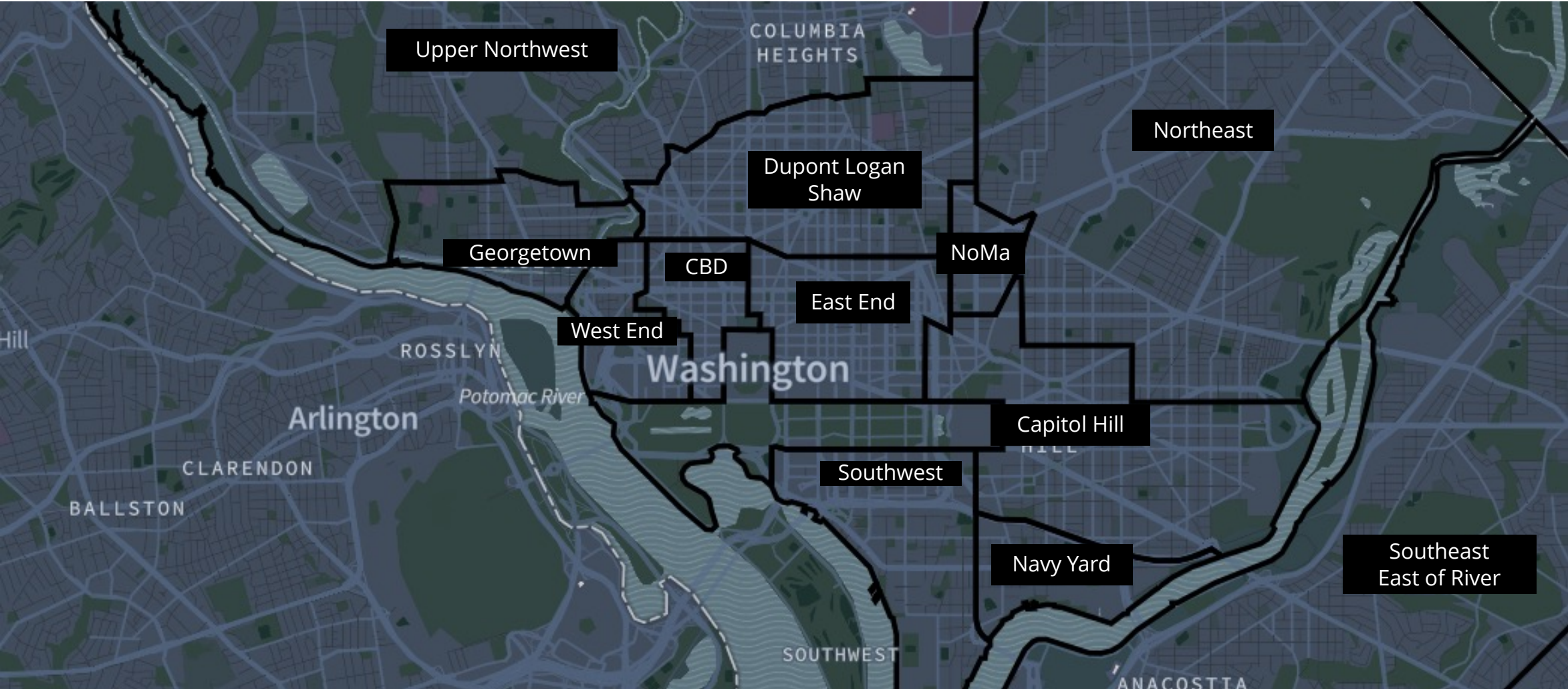
	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Capitol Hill	8,849,072	-	-	18.6%	2.8%	21.3%	-43,740	-0.49%	\$68.86
CBD	39,449,536	-	334,000	22.5%	2.0%	24.5%	230,427	0.58%	\$59.88
Dupont Logan Shaw	6,250,122	-	-	15.1%	0.8%	15.9%	-19,798	-0.32%	\$54.33
East End	51,797,341	-	399,617	25.9%	3.1%	28.8%	-587,745	-1.13%	\$60.30
Georgetown	2,824,215	-	-	29.8%	2.1%	31.9%	-57,635	-2.04%	\$52.63
Navy Yard	4,782,590	-	-	16.3%	4.1%	20.4%	-89,970	-1.88%	\$59.12
NoMa	7,998,680	-	-	15.1%	1.8%	16.9%	45,706	0.57%	\$49.76
Northeast	2,165,360	-	32,251	14.7%	0%	14.7%	22,508	1.04%	\$48.67
Southeast - East of the River	1,161,366	-	288,000	6.8%	1.5%	8.3%	-66,045	-5.69%	\$46.00
Southwest	13,350,606	-	-	13.9%	0.7%	14.6%	-37,014	-0.28%	\$51.83
Upper Northwest	5,266,569	-	41,000	12.8%	2.8%	15.7%	1,314	0.02%	\$43.21
West End	4,670,298	-	-	9.0%	4.8%	13.8%	-20,791	-0.45%	\$52.78
Market total	148,565,755	-	1,094,868	20.9%	2.4%	23.2%	-622,783	-0.42%	\$58.75

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	9,298,503	-	733,617	13.5%	5.0%	18.5%	-38,746	-0.42%	\$93.84
Class A	36,446,786	-	329,000	22.6%	3.2%	25.8%	-139,787	-0.38%	\$71.44
Class B	91,964,795	-	32,251	21.5%	2.0%	23.5%	-267,887	-0.29%	\$53.40
Class C	10,855,671	-	-	18.4%	1.0%	19.3%	-176,363	-1.62%	\$41.90
Market total	148,565,755	-	1,094,868	20.9%	2.4%	23.2%	-622,783	-0.42%	\$58.75



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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