4Q23

District of Columbia Office Market Overview

Market Observations

Economy

- The region's labor market remains strong amid shifting macroeconomic conditions. October's 2.7% unemployment rate remains significantly lower than the region's 10-year historical average of 4.2%. Furthermore, the Washington DC metro's unemployment rate is 120 basis points lower than the national rate.
- Year-over-year, job gains have been most pronounced in the leisure & hospitality and other services sectors, which both grew 3.9%, followed by education & health with 3.5% growth. While some office-using sectors experienced a slight decline in employment over the past year, jobs in the office-using sectors remain at a level that is 1.3% higher than three years ago—just prior to the pandemic—and 6.3% higher than the pandemic-induced employment trough in April 2020.

Leasing Market Fundamentals

- The District of Columbia's net absorption totaled negative 537,283 square feet during the fourth quarter to bring 2023's annual absorption total to a negative 1.3 million square feet.
- The District of Columbia's development pipeline remains historically low, with only one office delivery in all of 2023. The 178,324-square-foot 20 Massachusetts Avenue NW delivered during the fourth quarter with no preleasing activity. The one office project remaining under construction, 17XM, is approximately 57% preleased.
- Overall vacancy increased to 20.1%, up 50 basis points over the quarter and 80 basis points from 12 months ago.
- Average asking rents for the District declined 0.2% over the past year.

Major Transactions

- Office investment sales continue to lag, with sales volume near historic lows as buyers and sellers grapple with high interest rates and limited access to debt.
- The largest sales transaction of the quarter was 1250 Eye Street NW, which traded from a joint venture between DSC Partners and Wafra to Kairos Investment Management for $36 million or $209 per square foot.
- The largest fourth quarter leasing transactions were renewals, however, a handful of larger new leases were signed during the quarter, signaling tenants' confidence in making long-term real estate decisions while also weighing future space needs and hybrid work models.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- With demand continuing to moderate, limited new supply and strong preleasing in the remaining office project under construction will help ease rising vacancy.
- Fewer landlords appear to have capital for the concessions that have been a major driver in attracting tenants over the past several years, contributing to the recent decline in asking rents and slowdown in deal volume. This trend is likely to continue in the near-term.

TABLE OF CONTENTS

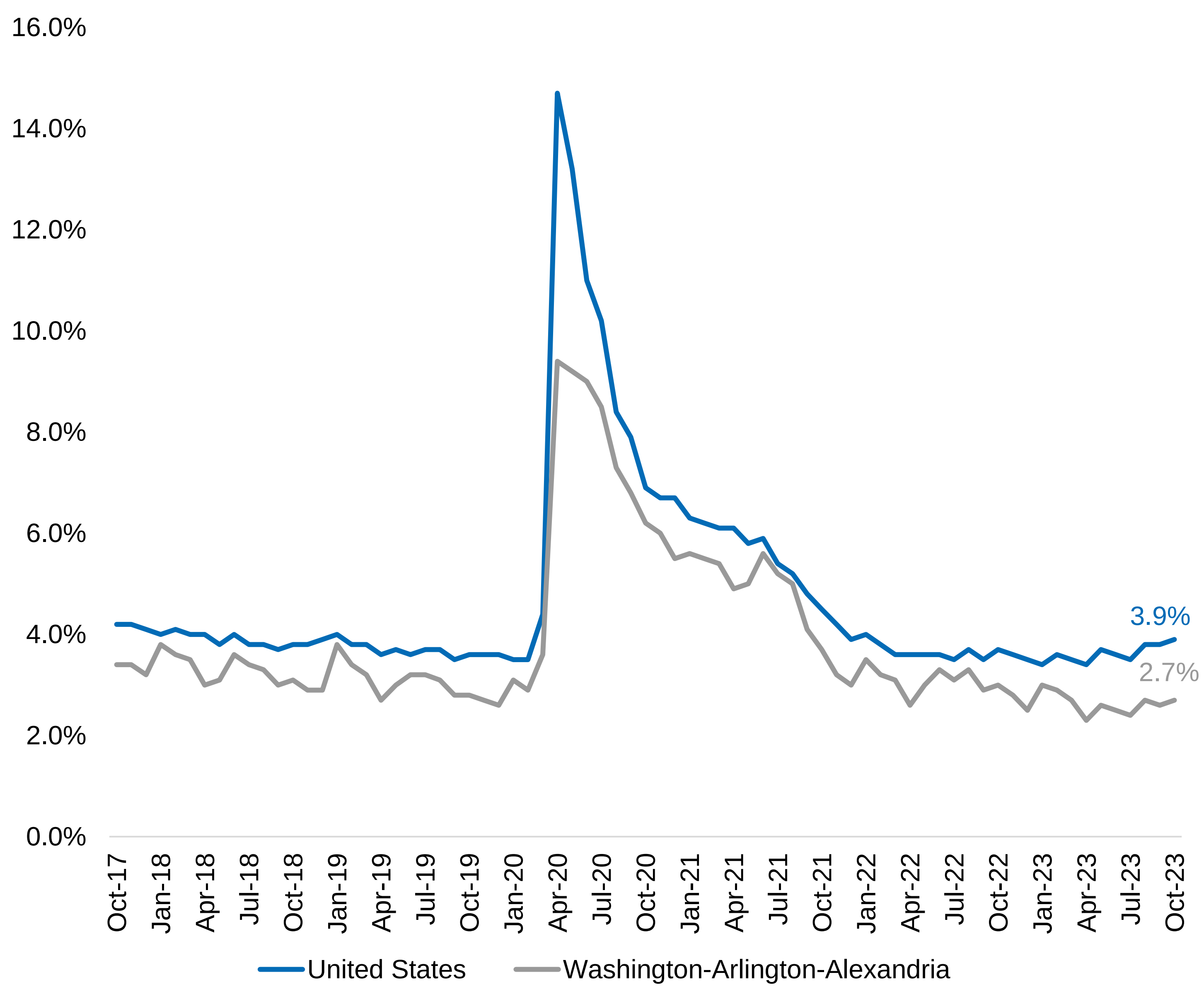
4Q23

Economy

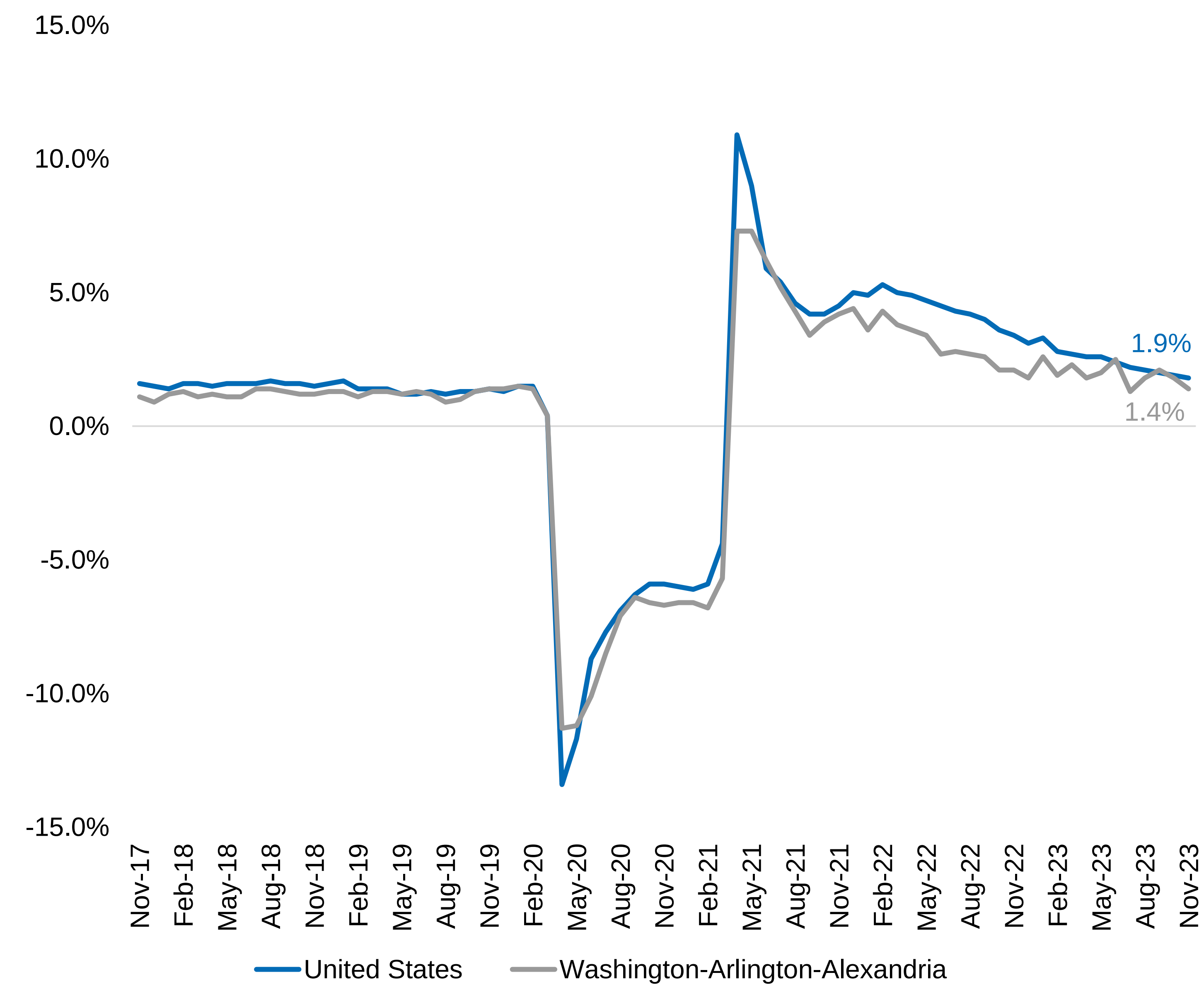
Metro Employment Trends Offer Mixed Signals

While the region's labor market remains on relatively solid footing with unemployment 120 basis points below the national average, job growth has begun to slow amid persistently high inflation and increasing interest rates.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

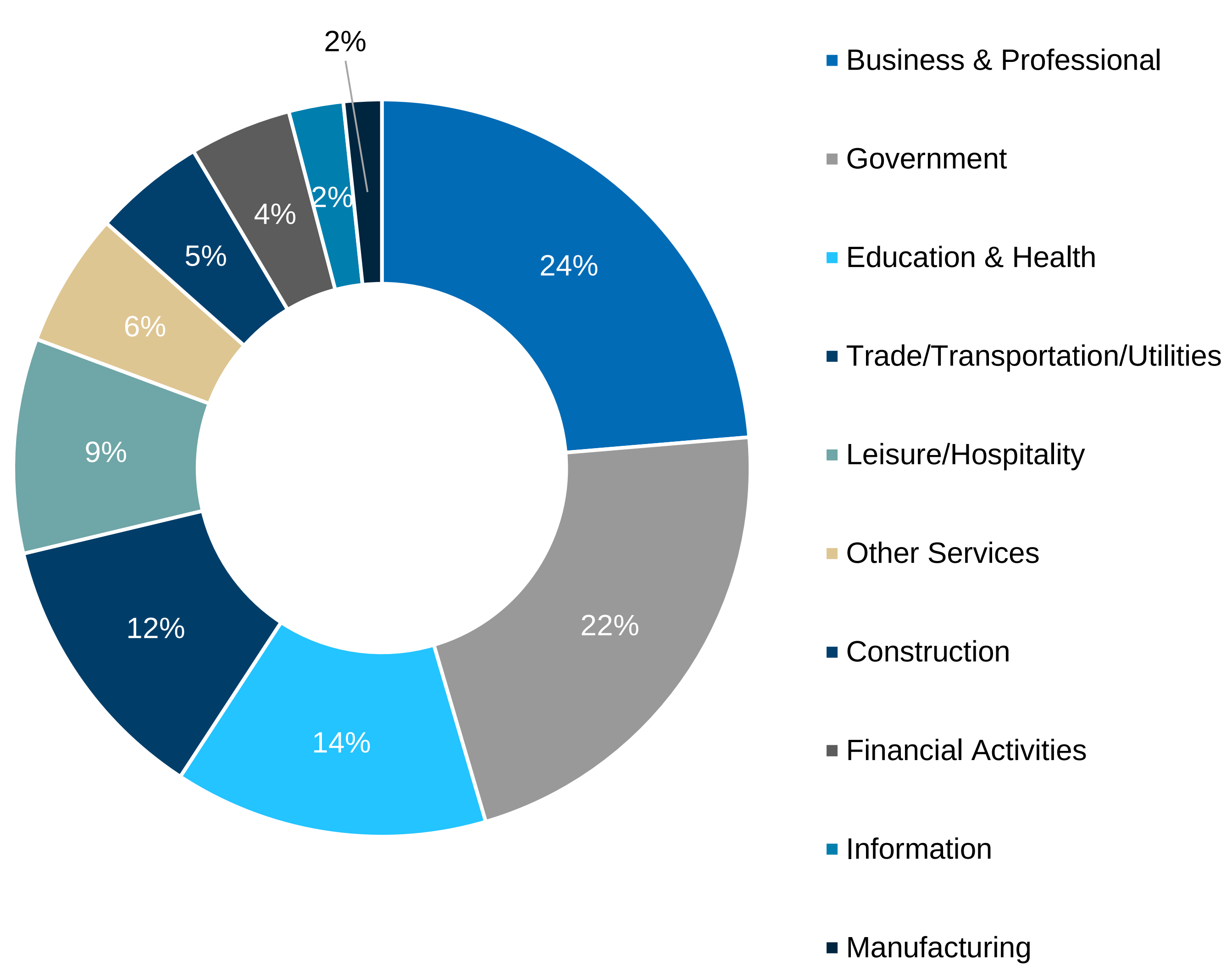


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

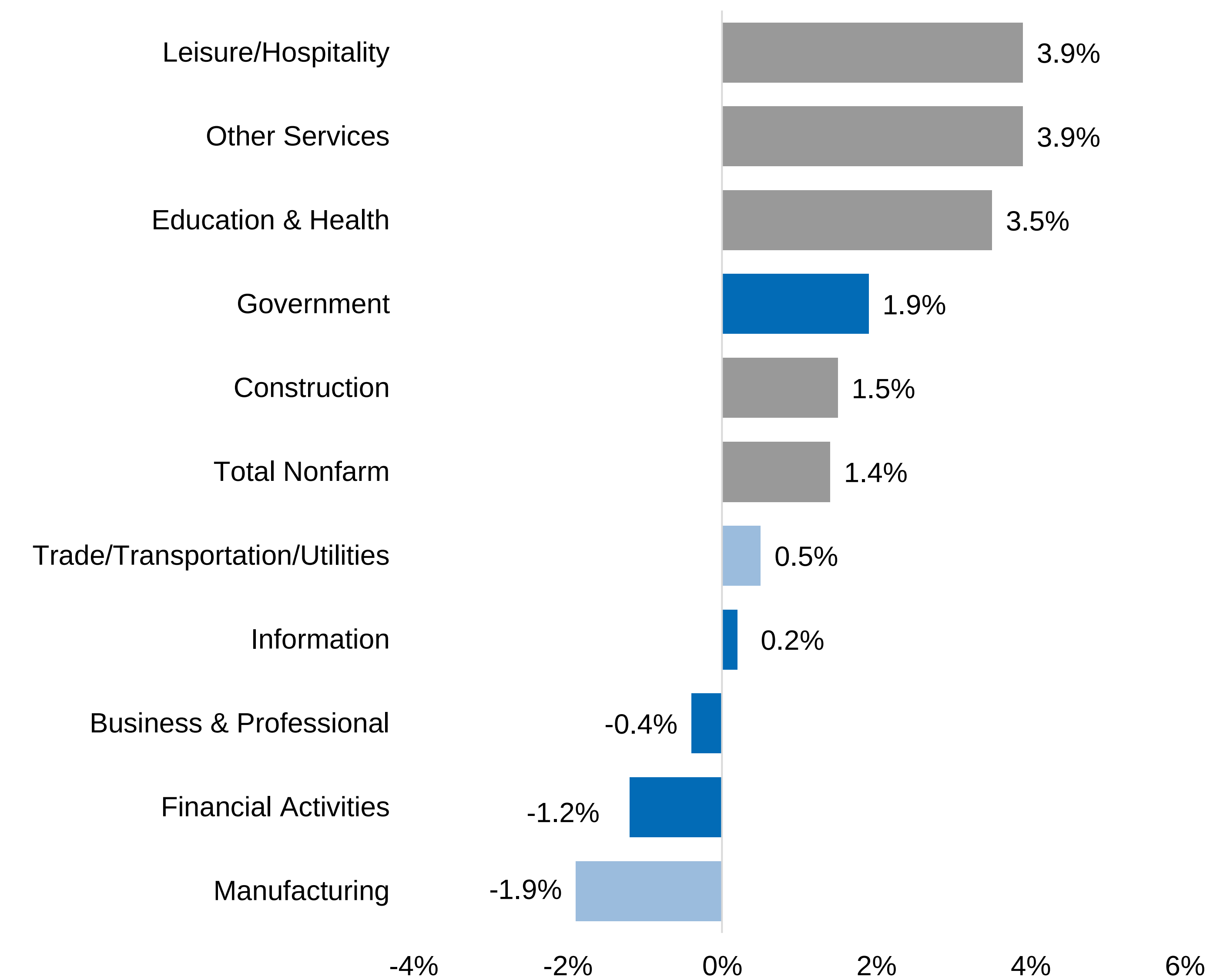
Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The Leisure/Hospitality and Other Services sectors led all industries in regional annual job growth amid a greater shift in spending from goods in favor of services. The office-occupying industries of Financial Activities and Professional and Business Services experienced job losses over the past year, helping to account for continued limited demand for office space.

Employment by Industry, November 2023



Employment Growth by Industry, 12-Month % Change, November 2023

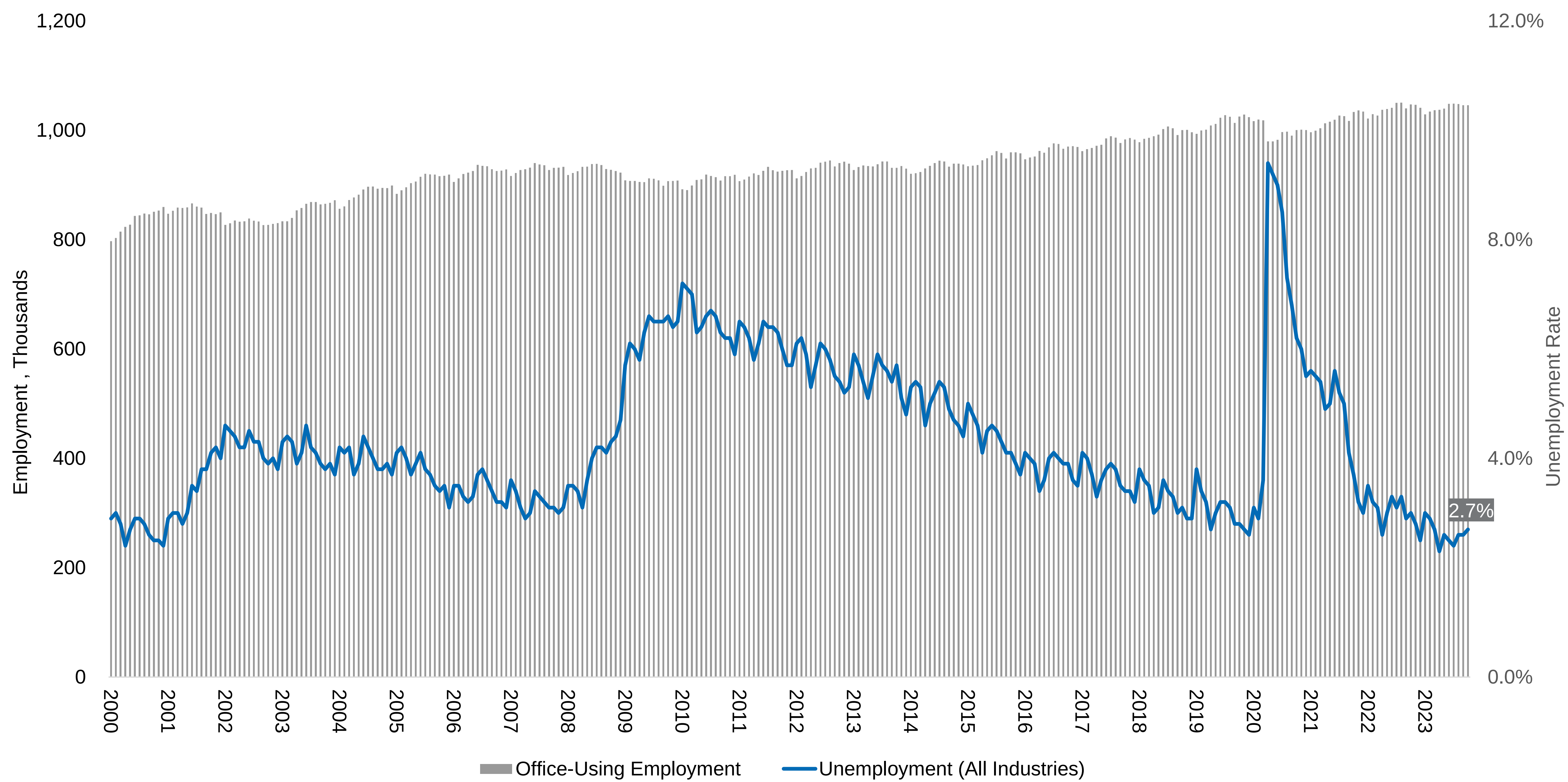


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and exceeded pre-pandemic levels. Office-using jobs in the region are currently 1.3% higher than three years ago—just prior to the pandemic—and 6.3% higher than the pandemic-induced employment trough in April 2020.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Washington-Alexandria-Arlington
Note: November 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

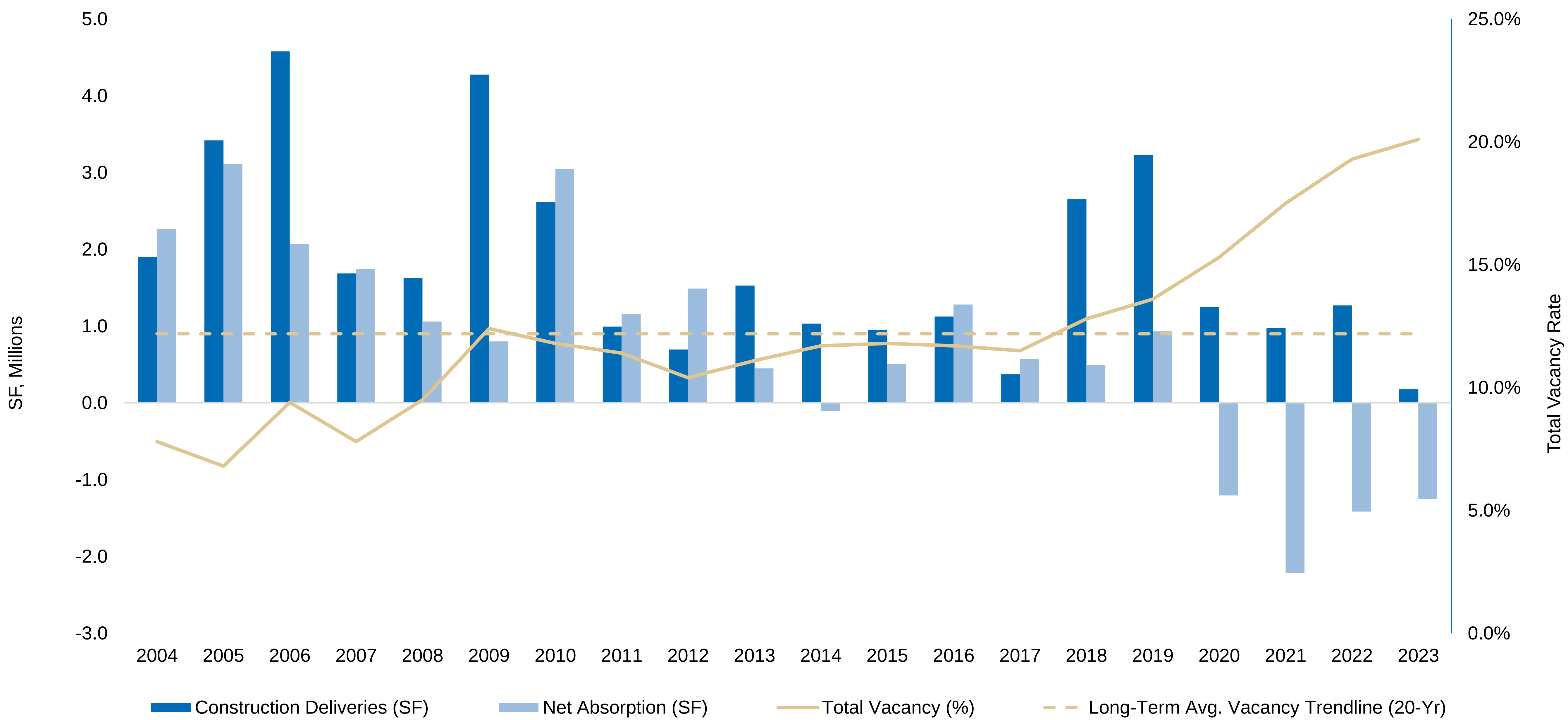
4Q23

Leasing Market Fundamentals

Vacancy Rises but Construction Deliveries Slow Down

The District of Columbia's vacancy rate rose 50 basis points over the quarter to end 2023 at 20.1%. However, 2023 saw only one office delivery totaling 178,324 square feet in the District, a market that has averaged 1.8 million square feet of annual deliveries over the past 20 years. A slowdown in office deliveries and the lack of new speculative office construction will be advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

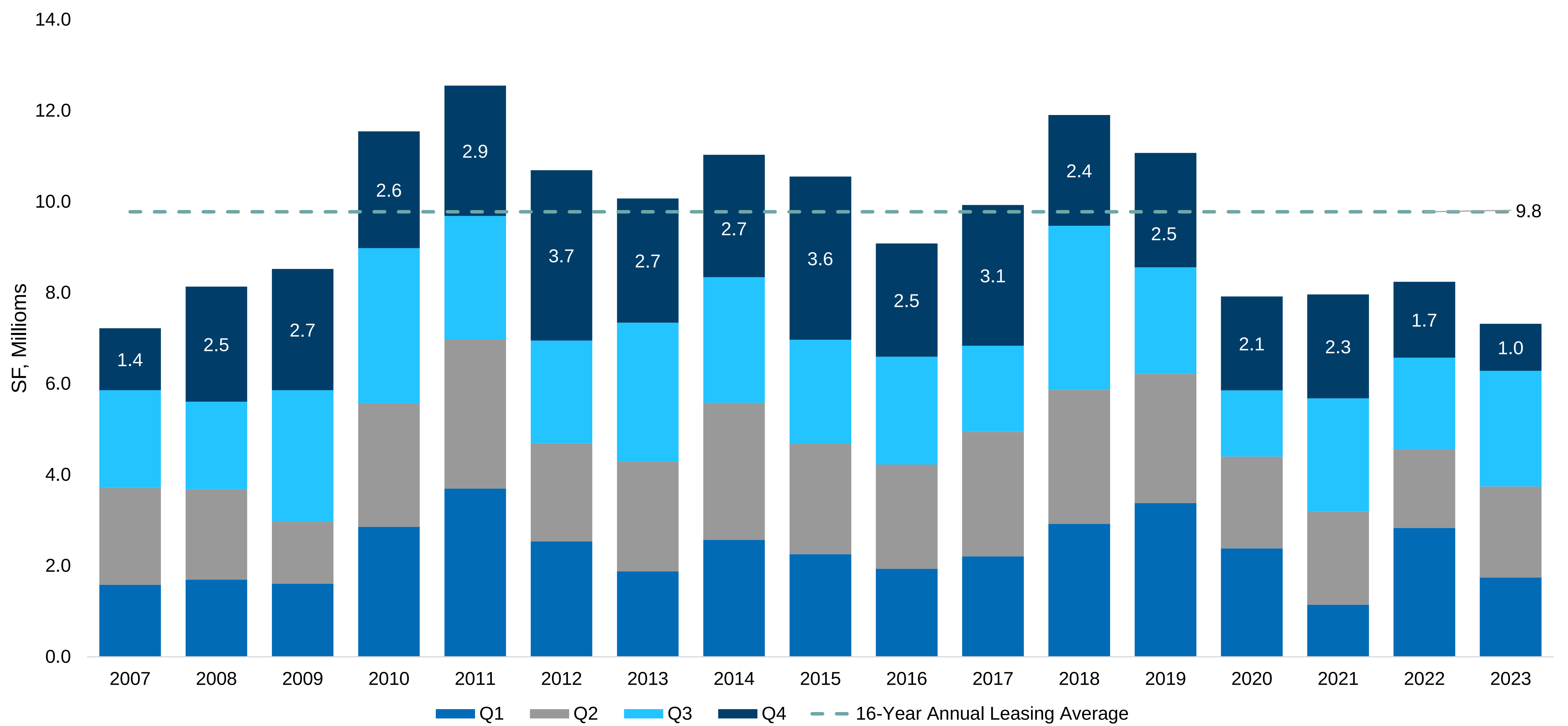


Source: Newmark Research

Leasing Activity Has Slowed

A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. Annual leasing volume for 2023 is slightly lower than over the past three years, driven partly by a slower fourth quarter of leasing activity.

Total Leasing Activity (msf)

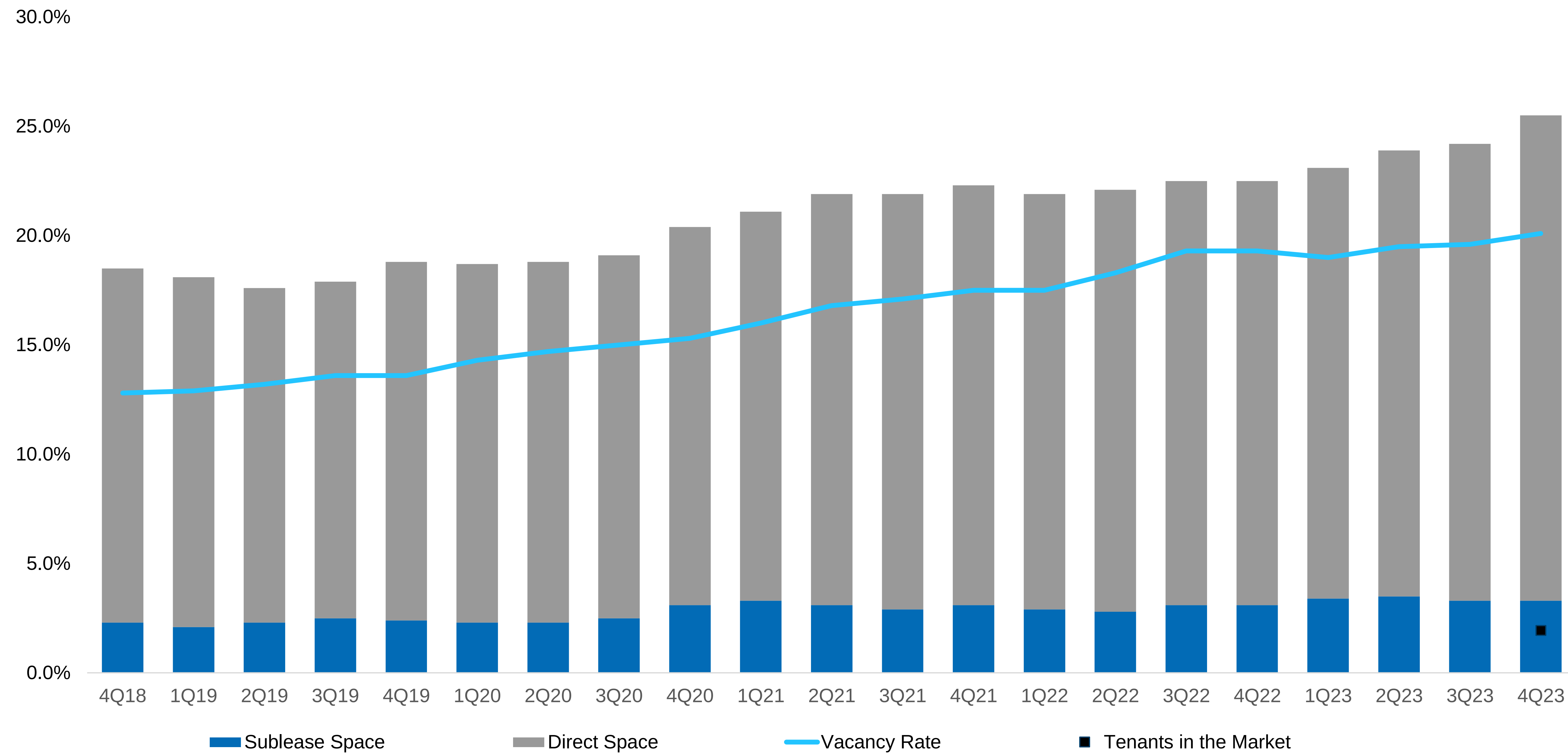


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Available office space sits at a historical high, both in terms of direct and sublease space. Over the past eight years, the direct availability rate has averaged 17.9% while the sublease availability rate has averaged 2.8%. The 4Q23 availability rates of 22.2% for direct space and 3.3% for sublease space are well above the long-term average. This expansion of available space is likely to continue as companies cautiously plan longer-term office strategies.

Available Space and Tenant Demand as Percent of Overall Market

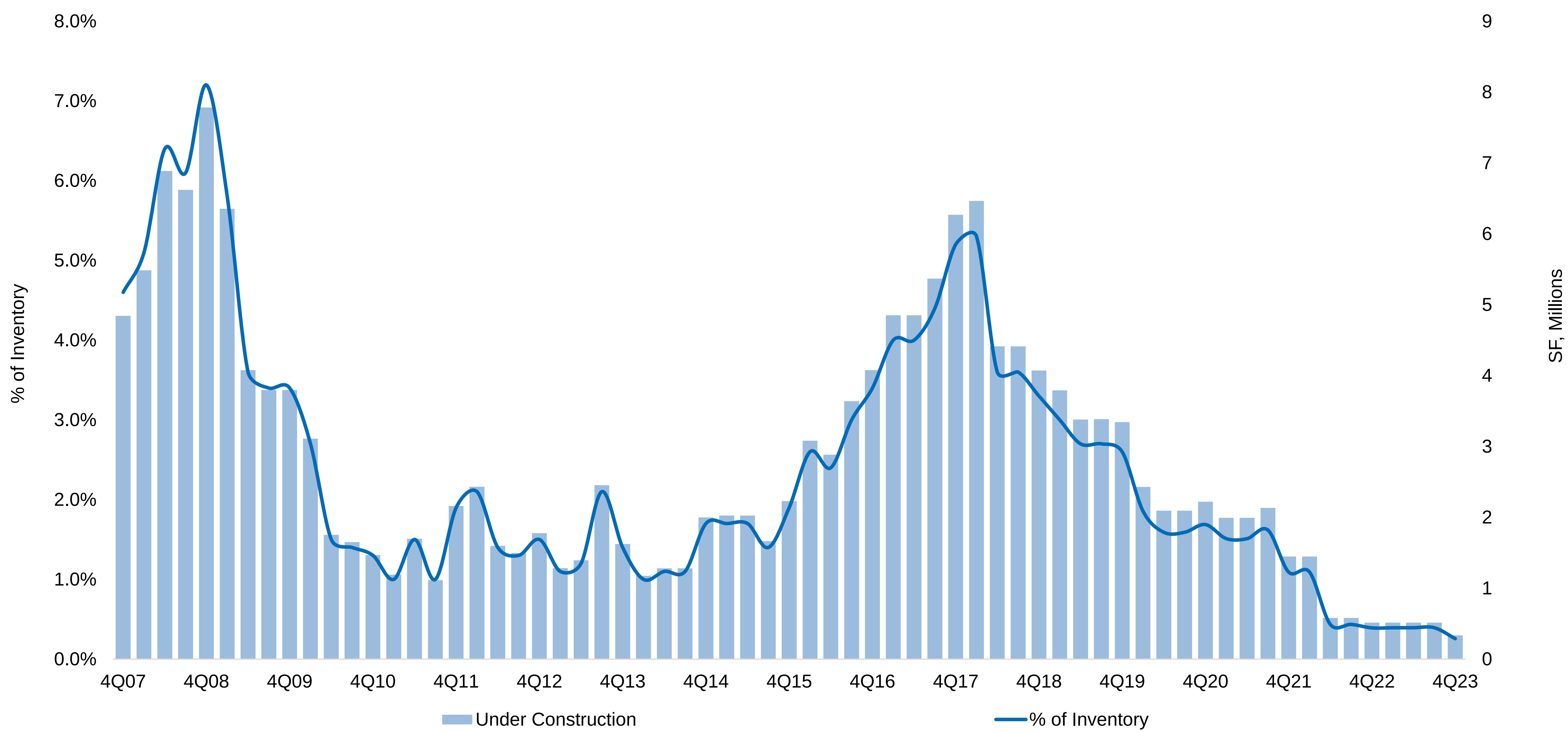


Source: Newmark Research

Slowing Office Construction Pipeline Will Help Ease Rising Vacancy

The District of Columbia's development pipeline remains historically low, with only one office delivery in all of 2023. The 178,324-square-foot 20 Massachusetts Avenue NW delivered during the fourth quarter with no preleasing activity. The one office project remaining under construction, 17XM, is approximately 57% preleased. With demand continuing to moderate, limited new supply and strong preleasing will help ease rising vacancy.

Office Under Construction and % of Inventory

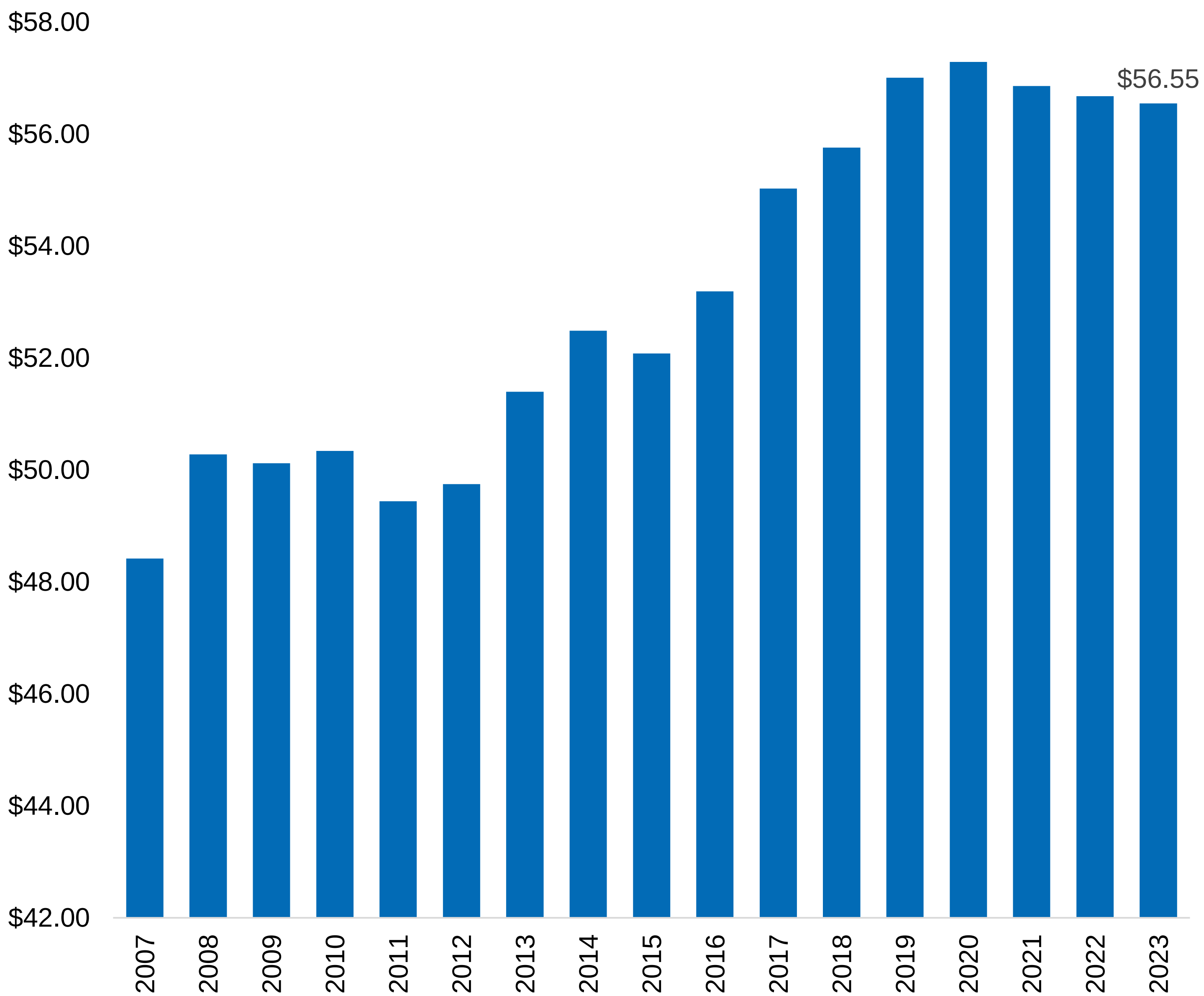


Source: Newmark Research, CoStar

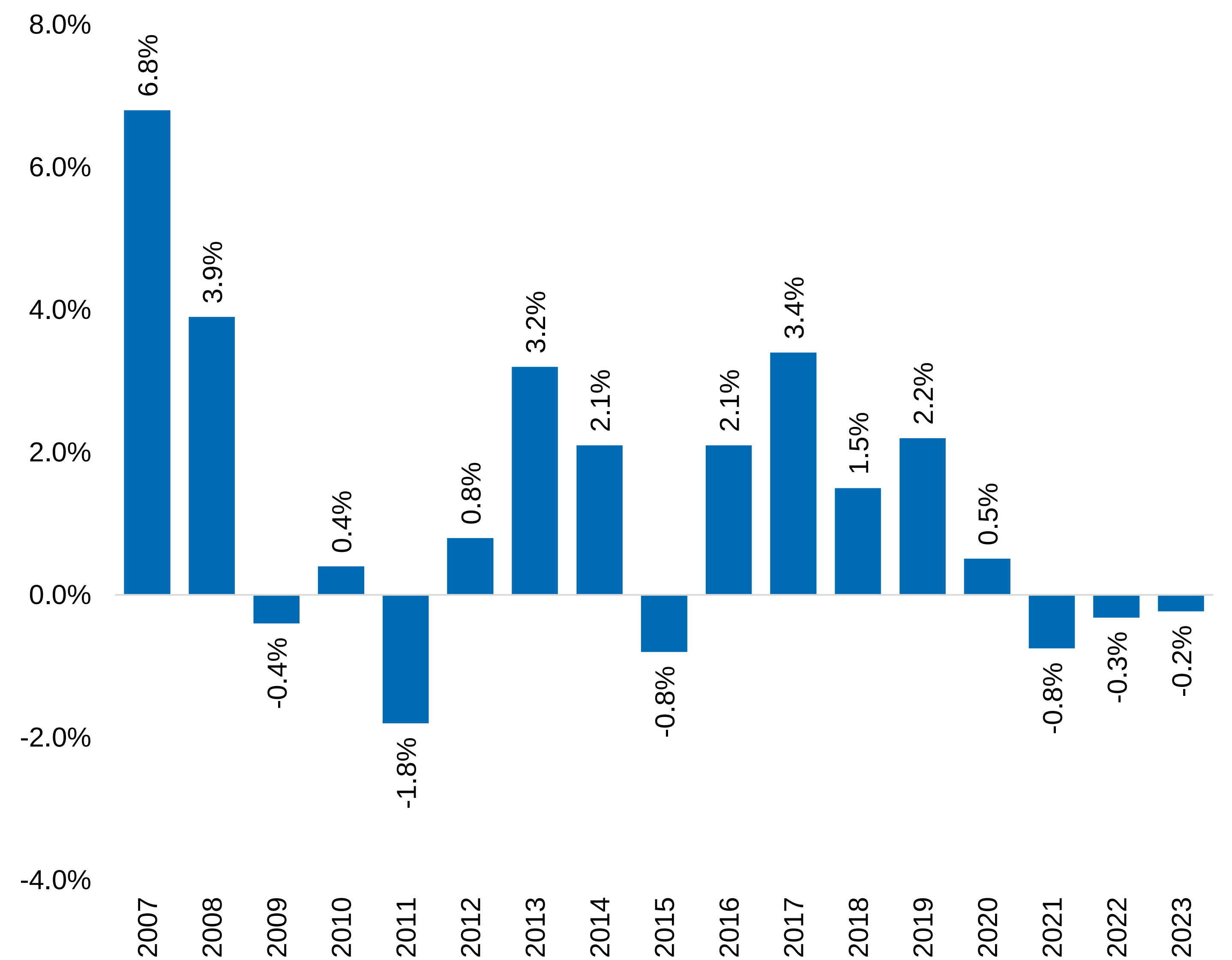
District of Columbia Asking Rents Experiencing Modest Decline

Asking rental rates have been decreasing year over year since 2021. The District of Columbia has not experienced sustained annual losses in asking rents since the Global Financial Crisis, but even then, it took two years for rates to noticeably drop in 2011. Continued limited demand—and in some cases, a lack of capital for concessions—has placed downward pressure on asking rents in the District.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

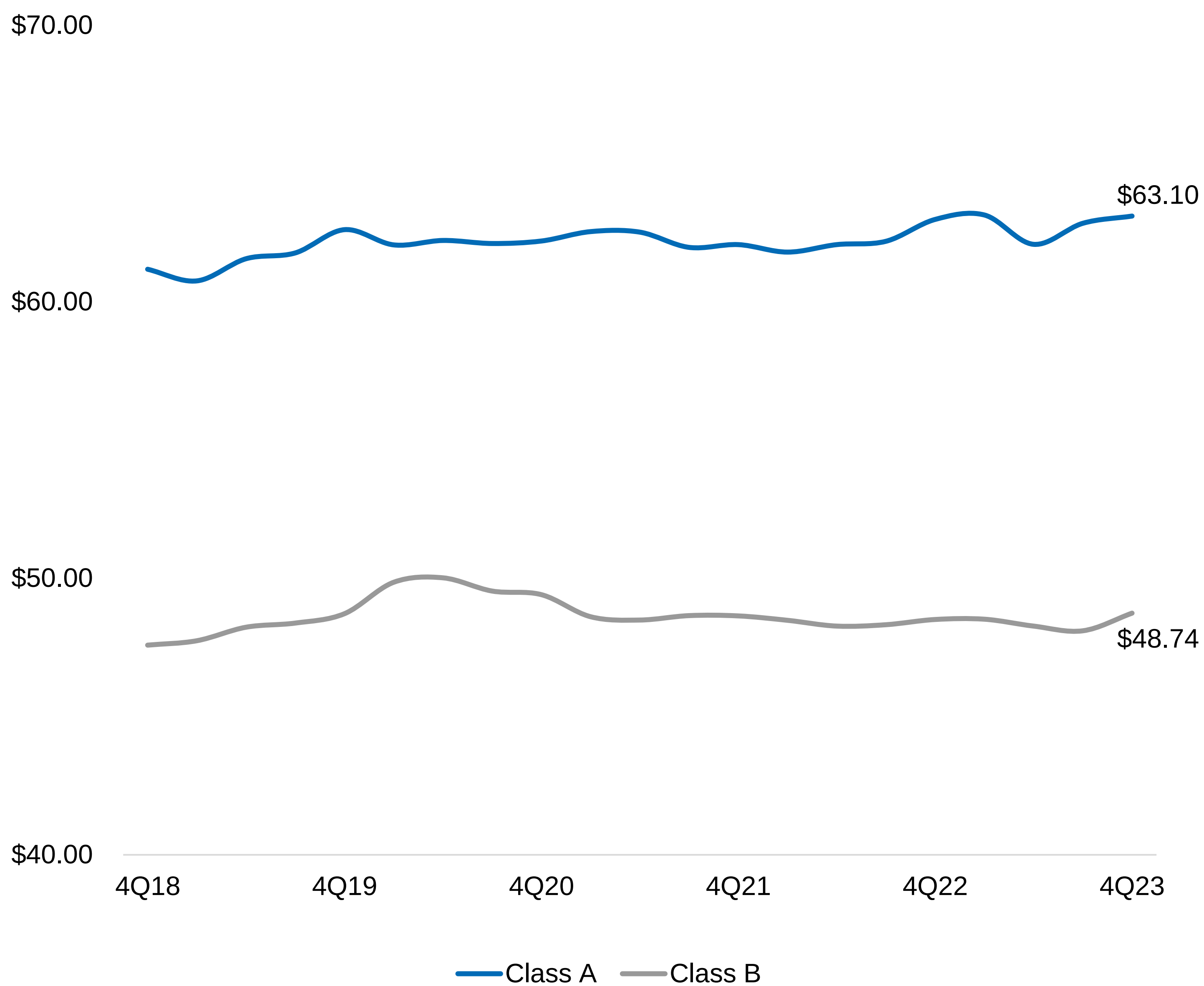


Source: Newmark Research, CoStar

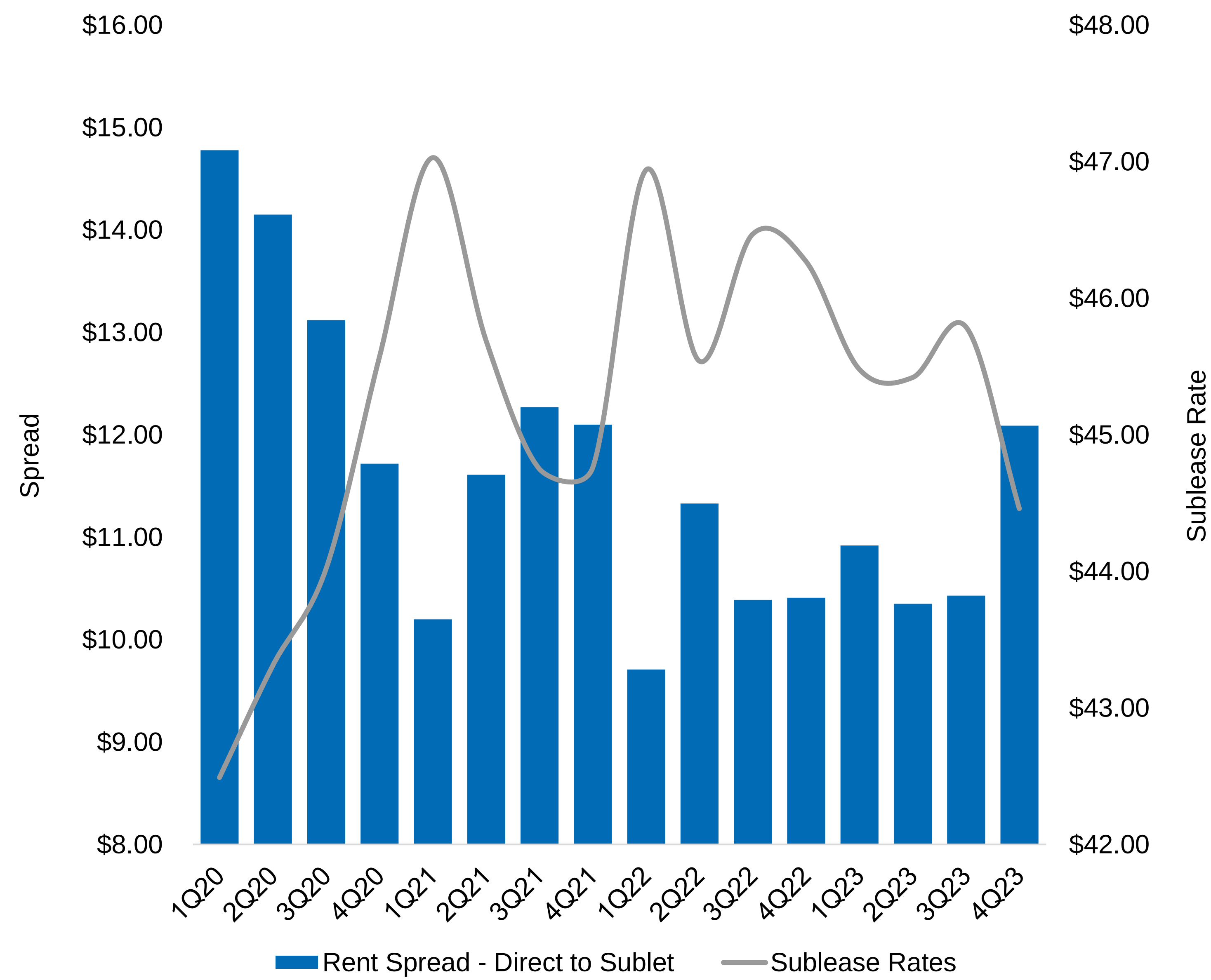
Asking Rents Continue to Rise

Both Class A and Class B rents continue to exhibit modest softening, however, after dipping during 2023, both have recovered to be on par with or slightly higher than a year ago. Trophy and Class A space continue to outperform, while Class B and Class C rates will continue to be flat or decline as user demand also drops.

Class A and Class B Asking Rents



Sublease Rates



Source: Newmark Research, CoStar

Leasing Activity Remains Limited

Despite negative absorption, leasing activity continues, albeit at a slower pace. The largest fourth-quarter transactions were lease renewals, however, a handful of larger new leases were signed during the quarter, signaling tenants' confidence in making long-term real estate decisions while also weighing future space needs and hybrid work models.

Notable 4Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
U.S. Federal Aviation Administration	950 L'Enfant Plaza SW	Southwest	Lease Renewal	99,585
Bryan Cave	1155 F Street NW	East End	Lease Renewal	24,000
Progressive Policy Institute	1919 M Street NW	CBD	Sublease	20,464
Mindset	455 Massachusetts Avenue NW	East End	New Lease	18,861
U.S. News & World Report	1255 23rd Street NW	West End	New Lease	18,598

Source: Newmark Research

For more information:

Carolyn Bates
Director
Mid-Atlantic Research
carolyn.bates@nmrk.com

Chad Braden
Senior Research Analyst
Mid-Atlantic Research
chad.braden@nmrk.com

Raymond Moussazadeh
Senior Research Analyst
Mid-Atlantic Research
raymond.Moussazadeh@nmrk.com

District of Columbia
1899 Pennsylvania Avenue, NW
Suite 300
Washington, DC 20006
t 202-331-7000

New York Headquarters
125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

NEWMARK