

YoY Chg      12-Mo. Forecast

**16.3%**  
Vacancy Rate      ▲      ▼

**-198K**  
Net Absorption, SF      ▼      ▲

**\$56.62**  
Asking Rent, PSF      —      —

(Overall, All Property Classes)

**ECONOMIC INDICATORS Q2 2020**

YoY Chg      12-Mo. Forecast

**3.0M**  
D.C. Metro Employment      ▼      ▲

**9.7%**  
D.C. Metro Unemployment Rate      ▲      ▼

**13.0%**  
U.S. Unemployment Rate      ▲      ▼

Source: BLS

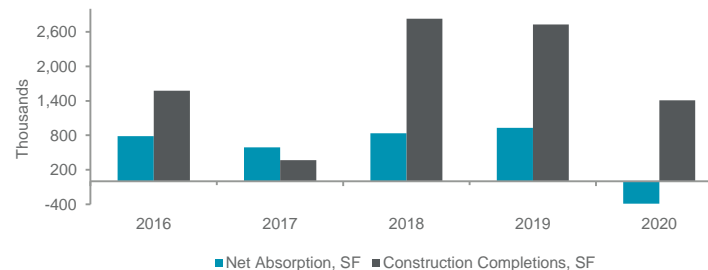
**Renewals/Extensions Driving Leasing**

Washington, D.C. finished the second quarter with renewals and extensions accounting for 63% of gross leasing. Over the course of the last decade, D.C. has averaged closer to 60% new and 40% renewals - a possible sign that long-term decisions are increasingly being put on hold in the current environment until some clarity can be attained. For many D.C. landlords, it is becoming apparent that quickly filling vacancy today and keeping the current occupancy in place is driving decision making. This strategy has included a few last minute, economically aggressive “Hail Mary” renewals to users that otherwise would have relocated – further explaining the uptick. For users that can demonstrate financial need, many D.C. office owners have been amenable to offering immediate abatement relief in exchange for a short-term extension on the back end of their leases. Still, other occupiers have immediate business needs taking precedence over real estate decisions – likely resulting in a drop in overall leasing activity in the near term. The Department of Education signed the largest lease and renewal of the quarter at 550 12<sup>th</sup> Street, SW as large blocks under the GSA rent cap and specifications remain in short supply and many federal users elect to remain in place until longer term decisions regarding space can be made.

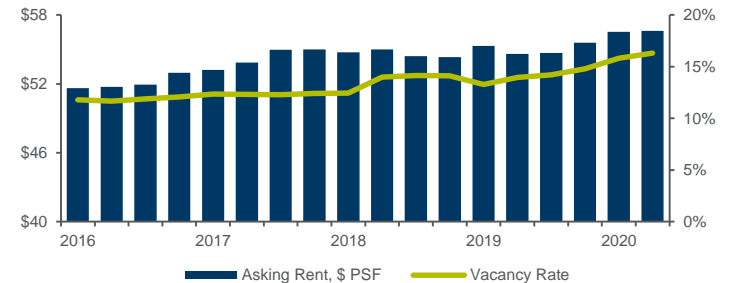
**New Construction and Sublet Possibilities**

The majority of new leases finalized during Q2 were very close to being fully executed prior to the start of the pandemic and were largely expiration-driven and time-constrained. Similarly, for incumbent landlords, filling large block vacancy amid a dwindling roster of large users in the market for the midterm is driving key decision making. This was evidenced in the second quarter by several leases with very aggressive terms relative to the market. In relocations and extensions alike, many landlords have clearly elected to retain their largest deals at a “discount” to the general market by offering maximum abatement, increased improvement allowances, early move in periods, and liability assumptions.

**SPACE DEMAND / DELIVERIES**



**OVERALL VACANCY & ASKING RENT**



# Washington, D.C.

Office Q2 2020



Availability remains abundant across D.C. as the city ended the second quarter at a market-high vacancy rate of 16.3%. With the market approaching the finish line of the current development cycle, 1901 L St, NW, 1050 17th St, NW and 2100 L St, NW all delivered in Q2. These assets come online amidst a plethora of space on market due to new construction and tenant downsizing. However, we expect a further increase in space either through subletting or tenants giving back space through early restructures.

Some key sublet availabilities have hit the market but a clear trend has yet to develop and more sublets should come online as users work on reevaluating their business and space needs in the coming months. Unlike some other major markets, D.C. has yet to see a multitude of large sublet spaces come online directly caused by the pandemic. New development will tail off moving forward with decreased demand and a clear lack of quality sites remaining as the market awaits a supply and demand rebalance and new sources of organic growth. Yet, we can still expect to see one or two new ground breaks in the near-term, such as 900 New York Ave, NW, 2100 M St, NW, or 1700 M St, NW, to meet the requirements of the last remaining largest 2024 requirements pending a decision on new construction verses the spot market.

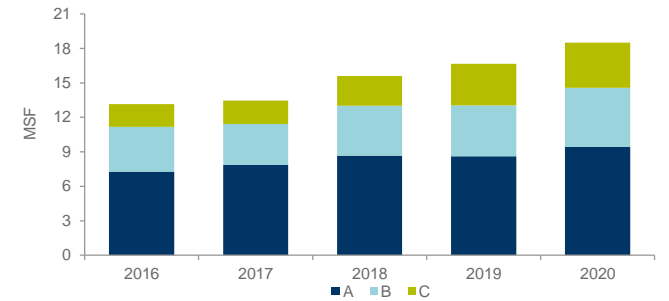
### Fed Jobs Expected to Bolster Numbers

According to Bureau of Labor Statistics data, the DC Metro region lost 350k jobs through May 2020 – 10.4% of the total employment base. Sector losses were concentrated in service industries. Losses in office-using sectors locally totaled 40k with no office-using sector losing more than 5% of the total workforce. While devastating, the DC region tends to outperform peer markets in downturns largely in part because of the presence of the federal government, which remains active. Early data suggests that DC is holding true to this trend with other gateway markets losing 14% to 19% of their total workforces, compared to DC Metro’s 10.4%.

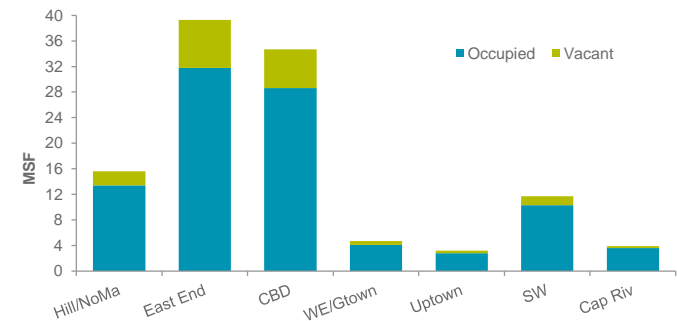
### Outlook

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid and the DC office leasing market remains in somewhat of a hold period. Access the most recent information specific to COVID [here](#).

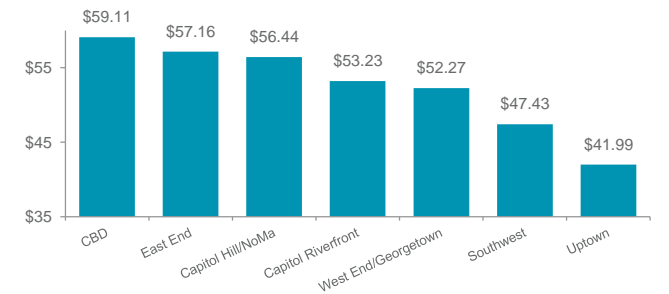
### VACANT SPACE BY CLASS



### SUBMARKET COMPARISON



### SUBMARKET ASKING RENT



## MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Capitol Hill/NoMa	15,666,964	43,876	2,181,382	14.2%	134,372	113,739	129,236	248,430	\$56.44	\$62.93
East End	39,319,710	629,391	6,912,105	19.2%	-130,287	-327,933	674,512	137,797	\$57.16	\$61.16
CBD	34,651,942	467,057	5,593,485	17.5%	-179,256	-170,689	759,111	482,000	\$59.11	\$69.67
West End/Georgetown	4,779,133	56,995	590,235	13.5%	-41,426	16,504	77,984	0	\$52.27	\$59.02
Uptown	3,188,523	39,847	314,799	11.1%	-36,611	56,262	17,663	174,000	\$41.99	\$47.50
Southwest	11,644,799	20,695	1,342,860	11.7%	40,923	-97,022	47,449	639,703	\$47.43	\$48.10
Capitol RiverFront	3,929,153	33,586	272,060	7.8%	13,822	21,342	92,125	490,000	\$53.23	\$53.23
<b>DOWNTOWN TOTALS</b>	<b>113,180,224</b>	<b>1,291,447</b>	<b>17,206,926</b>	<b>16.3%</b>	<b>-198,463</b>	<b>-387,797</b>	<b>1,798,080</b>	<b>2,171,930</b>	<b>\$56.62</b>	<b>\$62.71</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
550 12 <sup>th</sup> Street SW	Southwest	GSA- Department of Education	290,000	Renewal*
2050 M Street NW	CBD	Wiley Rein	166,250	New Lease
1025 Thomas Jefferson Street NW	West End/Georgetown	Palantir Technologies	104,777	Renewal*
1201 Pennsylvania Avenue NW	East End	National Endowment for Democracy	82,329	New Lease
901 K Street NW	East End	Microsoft	57,000	Renewal*

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
600 Maryland Avenue, SW	Southwest	Boston Properties / Smithsonian	455,000	\$254M / \$558
1307 New York Avenue, NW	East End	4 NFP Owner Users / Marx Realty	115,445	\$41.5M / \$359
1509 16 <sup>th</sup> Street, NW	CBD	MRP Realty JV MakeOffices / Vital Voices	32,000	\$26.5M / \$828

## KEY CONSTRUCTION COMPLETIONS YTD 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
1901 L Street NW	CBD	Winston & Strawn / Axinn Veltrop	198,760	Meridian Group
2100 L Street NW	CBD	Morrison & Foerster	179,230	Akridge / COPT
1050 17 <sup>th</sup> Street NW	CBD	---	149,934	The Lenkin Company

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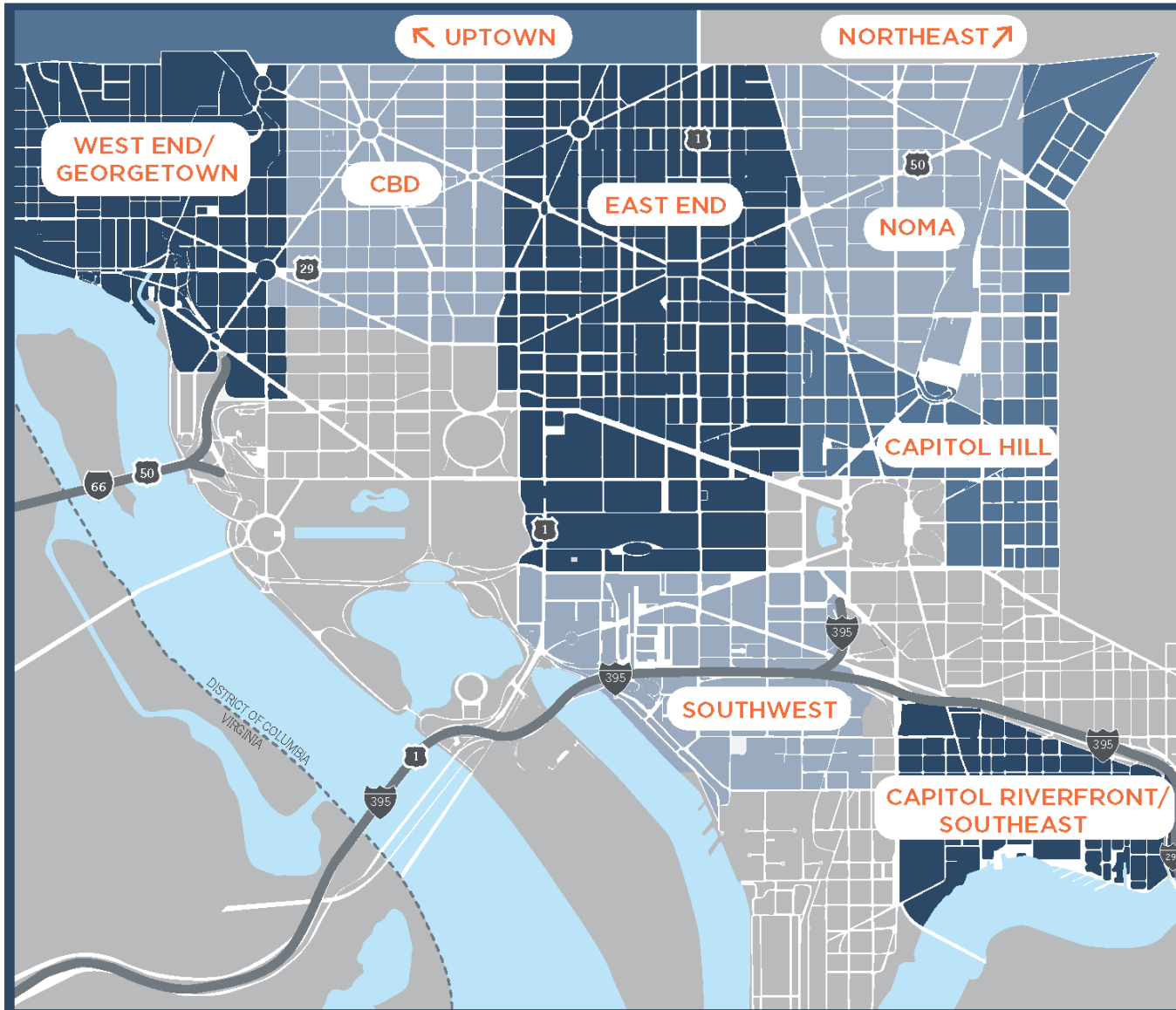
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# Washington, D.C.

Office Q2 2020

## OFFICE SUBMARKETS



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