

# Savills Studley Report Washington, DC office sector

Q4 2018



## SUMMARY

### Market Highlights

**Washington, DC:** Overall availability in the District continues to climb, ending the year at 16.2% - a 20-basis-point increase year-over-year. 3.0 million square feet (msf) of new product delivered in 2018 alone, with an additional 4.4 msf currently under construction. New construction remains a top-choice for tenants, as evidenced by the 66% pre-leasing of all buildings delivered this year, yet that still leaves quite a lot of unclaimed space (predominantly lower floors) hitting the market.

**Northern Virginia:** Northern Virginia also saw an increase in available space over the year with overall availability now at 22.0%, a 40-basis-point increase from Q4 2017. With more subdued development activity,

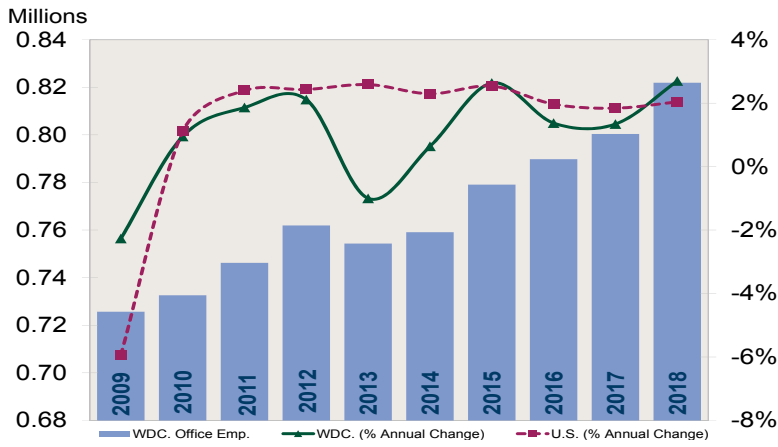
stronger leasing will allow for availability to level off in future quarters – particularly in submarkets like Tysons, Reston and the R-B Corridor. Amazon dominated headlines with its announcement that half of HQ2 will reside in Arlington, and while it has created quite a buzz, only time will tell if demand follows.

**Suburban Maryland:** New development is keeping overall availability in Suburban Maryland on the rise, ending the year at 21.1%, a 130-basis-point increase year-over-year. Nearly 2.2 msf is currently under construction in Montgomery County, and while 83% of new product in Bethesda / Chevy Chase has been pre-leased, projects further up Rockville Pike are moving forward without any committed tenants.

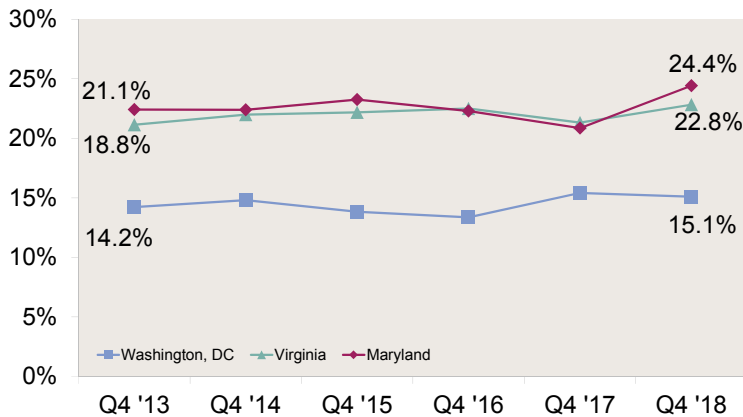
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*“Throughout the DC region, 2018 was marked by flight to quality and an incredible amount of high-profile office leasing decisions being made, across a variety of industries and sectors. Validated by Amazon, but not because of it alone, Washington has cemented itself as a place that large corporations and headquarters need to be. Options remain plentiful for tenants of all sizes, and the tenant-friendly environment will persist into the coming year and beyond.”*

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**Tom Fulcher, Vice Chairman**  
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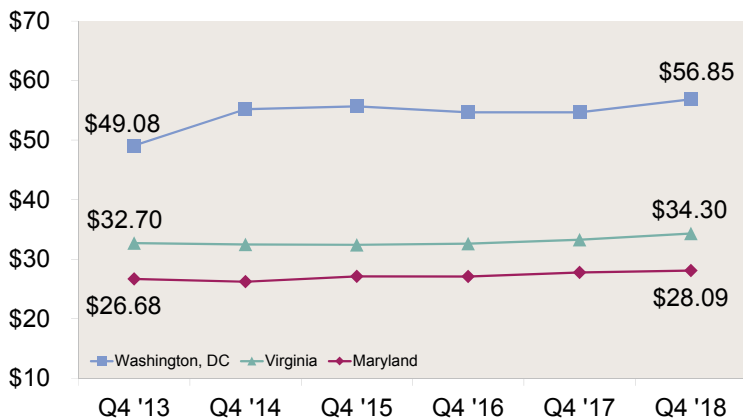
## Office-Using Employment Trends



## Class A Availability Rate Trends



## Class A Asking Rent Trends (\$/sf)



## Flight to Quality Pushes Availability Higher, Coworking Drives New Demand in DC

Availability increased over the year ending Q4 at 16.2% as 3.0 msf of new inventory came online in 2018. 66.0% of this space has been pre-leased to-date, yet that still leaves over 1.0 msf of high-quality, mostly lower-floor space available for tenants that may not care to be the first in on a new building. Both real estate firm CBRE and law firm Beveridge & Diamond PC took advantage of this opportunity, leasing 55,054 sf and 41,482 sf, respectively on middle and lower floors at 1900 N Street NW, where Goodwin Procter LLP is the anchor tenant. Still, tenants, on average, are reducing footprint as they make the move to new construction, and the only real net new growth in the market has come from the coworking sector. Coworking groups leased nearly 650,000 sf of new locations in DC in 2018, and more seems to be in the works for 2019. WeWork accounted for the majority of this, doubling its space at 1400 G Street NW and adding locations at 700 K Street NW, 777 6th Street NW, and 1333 New Hampshire Avenue NW, where it also acquired an ownership interest in the property.

## Northern Virginia Availability Remains Elevated, Leasing Ramps Up

Overall availability also increased in Northern Virginia, ending Q4 at 22.0%, a 40-basis-point uptick from one year ago. Construction activity for the year was far more subdued than in DC with only two projects delivered, totaling just 325,000 sf - 74.0% of which has been pre-leased. There is an additional 2.1 msf currently under construction, yet most owners have held out for anchor tenants prior to commencing, resulting in an 80.0% pre-lease rate. Leasing activity nearly doubled from Q3 with 3.4 msf leased in the quarter bringing the year-to-date total to more than 11.0 msf. Coworking is growing more rapidly in the suburbs, as well, with WeWork committing to 83,294 sf at 1201 Wilson Boulevard this quarter and Industrious announcing that it will partner with Rubenstein Partners to operate 25,000 sf at 2461 Eisenhower Avenue.

## Leasing Activity Slows in Maryland, Availability Creeps Up

The pace of activity waned in the fourth quarter with only 679,886 sf leased in Q4, marking the lowest quarter of activity for the year. Submarkets in Montgomery County - particularly Bethesda / Chevy Chase and those close by - continue to win out in the war for demand, accounting for 82.0% of leasing seen this quarter. No leases over 100,000 sf were signed, and most larger

transactions were renewals including BAE System's 90,040-sf renewal at 520 Gaither Road in Rockville and IBM's 42,462-sf renewal at 6710 Rockledge Drive in North Bethesda. Availability ended the year at 21.1%, a 130-basis-point increase from the end of 2017.

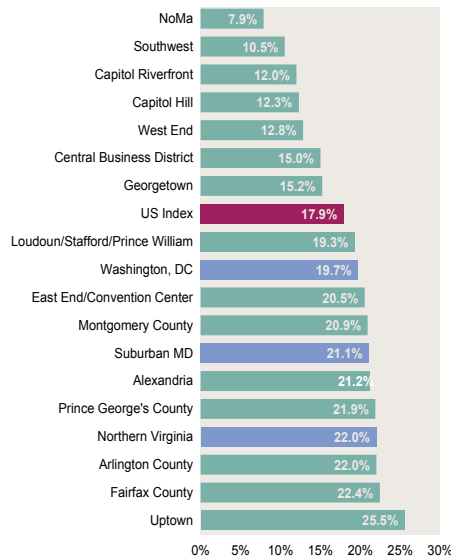
**Submarket Focus**

As availability remains elevated across the District, non-core submarkets (those outside of the CBD and East End) are faring far better with availability rates below market average and stronger pre-leasing activity. Overall availability stands at 12.0% in Capitol Riverfront, 10.5% in Southwest, and 7.9% in NoMA despite an overall market average of 16.2%. Of the 4.4 msf currently under construction in DC, only 37.0% of that is in non-core markets and 67.0% has already been spoken for. Southwest succeeded in luring another major tenant to the Wharf development this quarter with law firm Williams & Connolly LLP committing to 288,608 sf at 690 Maine Avenue SW. The firm will relocate in 2022 when the new building delivers as part of Phase II of the community, leaving behind another substantial block of second-generation space to fill in the East End. The Business Roundtable also signed at the Wharf this quarter, taking 30,000 sf at the existing 1000 Maine Avenue SW, leaving very few blocks left to lease in Phase I.

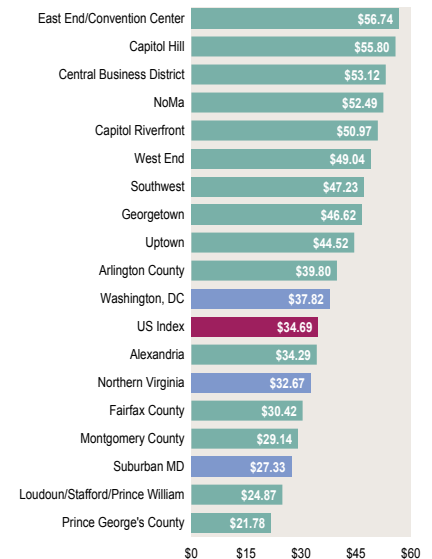
Fairfax County saw more than 2.2 msf leased in Q4, nearly doubling the amount of activity seen in Q3 and accounting for 65.0% of all leasing in Northern Virginia this quarter. The Silver Line markets, and new product, remain popular amongst Virginia tenants with Meridian's Boro Tower securing two additional pre-leases in Tysons Corner this quarter. Big four accounting firm, KPMG, announced it will move from nearby 1676 International Drive to 168,399 sf at 8350 Broad Street when it opens in early 2019. Law firm Womble Bond Dickinson also announced that it will call Boro Tower home in 2019, taking a full floor (24,239 sf). They will join media company TEGNA and law firm Hogan Lovells, bringing the project to approximately 70.0% leased. Only a handful of large block options remain on the market in Tysons Corner, with only seven existing buildings that can accommodate 100,000 sf or more and no options in currently under construction or recently delivered buildings. Reston is also dwindling in options for large users, with only six buildings exceeding 100,000 sf in available space, and only one of those in walking proximity to Reston Town Center.

2018 marked a year focused on the urbanization and amenitization of

**Availability Rate Comparison**



**Rental Rate Comparison (\$/sf)**



**Major Transactions**

Tenant	Sq Feet	Address	Market Area
Fannie Mae	379,000	11600 American Dream Way	Fairfax County
Williams & Connolly LLP	288,608	850 Maine Avenue SW	Southwest
DLA Piper	208,718	505 9th Street NW	East End
GSA - U.S. Patent & Trademark Office	190,546	2800 S Randolph Street	Arlington County
GSA - Department of State	189,008	2215 Constitution Avenue NW	West End
Fannie Mae	180,292	13100 Worldgate Drive	Fairfax County
District of Columbia Department of General Services	175,779	250 M Street SE	Capitol Riverfront
Fannie Mae	174,708	13150 Worldgate Drive	Fairfax County
KPMG	168,399	8350 Broad Street	Fairfax County
Eversheds Sutherland LLP	143,160	700 6th Street NW	East End
<b>Sum of Leases</b>	<b>2,098,218</b>		

downtown Bethesda as it sees a wave of new construction come to the submarket. Approximately 1.6 msf is currently under construction in Bethesda / Chevy Chase with 83.0% pre-leased to-date. While there was no new pre-leasing activity seen in Q4, it is still notable that, in the past year, the submarket was able to attract several large headquarters tenants from outside of Bethesda including Fox 5, JBG Smith, and Host Hotels & Resorts. Close-in submarkets like North Bethesda and Silver Spring are taking note and construction commenced this quarter at Pike and Rose's new office building, 909 Rose Avenue, bringing an additional 212,000 sf of available space to the mixed-use development. As new options become more scarce in Bethesda, attention may shift to markets and projects that have a similar focus on amenities and tenant experience.

**Outlook**

As DC's development pipeline remains full, the supply-demand imbalance will keep conditions in the tenant's favor for the

foreseeable future. Options in both new and existing space in the CBD and East End are at an all-time high, and market softness will keep concessions generous and lease terms flexible.

Silver Line submarkets including Tysons Corner and Reston saw the bulk of demand in 2018 with new product in these markets leasing fast. Still, the R-B corridor secured notable activity throughout the year and may become a heightened focus now that Amazon's plans are clear.

Tenants looking to locate in Suburban Maryland should note that new options, particularly in Bethesda / Chevy Chase, are dwindling, but mixed-use areas in submarkets like North Bethesda and Silver Spring will ramp up as developers are noting the increasing importance of amenitization. Overall market softness will continue to benefit tenants as pricing and flexibility remain favorable.

Submarket	Total	Leasing Activity		Available SF				Availability Rate				Asking Rents Per SF			
		SF (1000's)	Last 12 Months	5 Year Average	This Quarter	% Change from Last Qtr.	Last Quarter	Year Ago	This Quarter	PP Change from Last Qtr. (1)	Last Quarter	Year Ago	This Quarter	% Change from Last Qtr.	Last Quarter
<b>Capitol Hill</b>	4,076	342	180	501	-5.8%	532	616	12.3%	-0.8%	13.1%	15.1%	\$55.80	0.6%	\$55.49	\$53.25
Capitol Hill - Class A	1,721	167	115	245	-2.8%	253	294	14.3%	-0.4%	14.7%	17.1%	\$59.82	0.6%	\$59.49	\$55.13
<b>Capitol Riverfront</b>	4,033	407	N/A	484	-53.3%	1,035	1,235	12.0%	-13.7%	25.7%	31.6%	\$50.97	-0.3%	\$51.12	\$47.48
Capitol Riverfront - Class A	2,819	407	N/A	480	12.8%	426	364	17.0%	1.9%	15.1%	13.6%	\$50.97	-0.3%	\$51.12	\$47.48
<b>NoMa</b>	10,805	235	N/A	837	2.5%	816	879	7.9%	0.2%	7.7%	8.7%	\$52.49	3.2%	\$50.85	\$50.84
NoMa - Class A	8,556	229	N/A	748	8.5%	689	745	8.7%	0.7%	8.1%	9.3%	\$53.10	-0.9%	\$53.60	\$53.35
<b>East End/Convention Center</b>	44,888	3,355	1,975	9,219	7.5%	8,577	9,075	20.5%	1.4%	19.1%	20.4%	\$56.74	0.3%	\$56.56	\$53.32
East End/Convention Center - Class A	32,581	2,446	2,576	5,975	0.1%	5,970	6,221	18.3%	0.0%	18.3%	19.4%	\$59.75	0.0%	\$59.74	\$55.65
<b>Central Business District</b>	34,743	2,682	1,642	5,213	-1.5%	5,295	4,702	15.0%	-0.2%	15.2%	13.5%	\$53.12	0.0%	\$53.12	\$52.27
Central Business District - Class A	14,564	1,518	1,216	1,921	-1.1%	1,942	2,034	13.2%	-0.1%	13.3%	14.0%	\$58.59	-0.2%	\$58.73	\$58.99
<b>West End</b>	3,537	465	119	454	8.6%	418	466	12.8%	1.0%	11.8%	13.2%	\$49.04	2.3%	\$47.93	\$46.51
West End - Class A	2,704	276	174	448	7.1%	418	466	16.6%	1.1%	15.5%	17.2%	\$49.06	2.4%	\$47.93	\$46.51
<b>Georgetown</b>	2,561	140	79	390	5.5%	370	365	15.2%	0.8%	14.4%	14.2%	\$46.62	4.0%	\$44.82	\$45.44
Georgetown - Class A	1,186	67	70	233	2.7%	227	228	19.6%	0.5%	19.1%	19.2%	\$48.17	5.8%	\$45.52	\$48.17
<b>Southwest</b>	12,096	2,097	848	1,273	-5.6%	1,348	1,162	10.5%	-0.6%	11.1%	9.6%	\$47.23	1.1%	\$46.72	\$46.53
Southwest - Class A	9,377	2,008	947	1,080	-0.9%	1,090	852	11.5%	-0.1%	11.6%	9.1%	\$48.03	0.8%	\$47.65	\$47.79
<b>Uptown</b>	5,303	853	159	1,354	29.1%	1,049	770	25.5%	5.8%	19.8%	14.7%	\$44.52	1.1%	\$44.04	\$39.79
Uptown - Class A	706	53	39	75	33.6%	8,556	62	10.6%	2.7%	7.9%	8.8%	\$47.41	-7.3%	\$51.16	\$50.19
<b>Fairfax County</b>	90,303	6,496	3,226	20,258	-3.6%	21,005	19,765	22.4%	-0.8%	23.3%	22.0%	\$30.42	-1.4%	\$30.85	\$28.96
Fairfax County - Class A	60,249	5,219	4,164	14,252	-3.6%	14,784	13,181	23.7%	-0.9%	24.5%	22.0%	\$32.49	-1.8%	\$33.07	\$30.63
<b>Alexandria</b>	14,639	382	382	3,105	5.3%	3,537	3,551	21.2%	1.1%	20.1%	24.3%	\$34.29	0.6%	\$34.07	\$32.92
Alexandria - Class A	8,901	203	398	1,333	13.2%	1,177	1,381	15.0%	1.8%	13.2%	15.5%	\$34.96	1.2%	\$34.53	\$33.41
<b>Arlington County</b>	36,069	3,472	1,729	7,937	-1.6%	8,064	7,872	22.0%	-0.4%	22.4%	21.8%	\$39.80	-0.2%	\$39.89	\$39.68
Arlington County - Class A	23,037	2,922	2,143	5,355	-3.5%	5,547	5,417	23.2%	-0.8%	24.1%	23.5%	\$41.21	-0.3%	\$41.35	\$41.01
<b>Loudoun/Stafford/Prince William</b>	10,595	751	292	2,043	19.4%	1,711	1,414	19.3%	3.1%	16.2%	13.6%	\$24.87	2.3%	\$24.32	\$22.81
Loudoun/Stafford/Prince William - Class A	6,128	544	339	1,501	29.2%	1,162	841	24.5%	5.5%	19.0%	14.2%	\$26.29	2.1%	\$25.76	\$24.38
<b>Montgomery County</b>	47,926	2,930	1,519	10,019	0.3%	9,987	8,761	20.9%	0.1%	20.8%	18.3%	\$29.14	-1.9%	\$29.70	\$28.55
Montgomery County - Class A	29,300	2,048	1,880	6,848	4.0%	6,584	5,462	23.4%	0.9%	22.5%	18.6%	\$30.11	-2.7%	\$30.93	\$30.34
<b>Prince George's County</b>	14,978	628	382	3,276	-9.2%	3,607	3,681	21.9%	-2.2%	24.1%	24.6%	\$21.78	0.9%	\$21.58	\$21.46
Prince George's County - Class A	8,517	484	559	2,385	0.6%	2,370	2,424	28.0%	0.2%	27.8%	28.5%	\$22.28	0.3%	\$22.23	\$21.97
<b>Washington D.C. Total</b>	121,842	10,577	9,082	19,725	1.5%	19,440	19,270	16.2%	0.2%	16.0%	16.0%	\$53.61	0.5%	\$53.32	\$51.50
Washington D.C. Total - Class A	74,213	7,170	5,896	11,205	1.2%	11,070	11,266	15.1%	0.2%	14.9%	15.4%	\$56.85	0.0%	\$56.87	\$54.67
<b>Northern Virginia Total</b>	151,607	11,101	9,684	33,342	-1.1%	33,728	32,602	22.0%	-0.3%	22.2%	21.6%	\$32.67	-0.9%	\$32.96	\$31.71
Northern Virginia Total - Class A	98,316	8,888	7,045	22,440	-1.0%	22,669	20,820	22.8%	-0.2%	23.1%	21.3%	\$34.30	-1.4%	\$34.80	\$33.26
<b>Suburban Maryland Total</b>	62,904	3,557	3,563	13,295	-2.2%	13,594	12,442	21.1%	-0.5%	21.6%	19.8%	\$27.33	-0.8%	\$27.54	\$26.45
Suburban Maryland Total - Class A	37,817	2,532	2,439	9,234	3.1%	8,954	7,886	24.4%	0.7%	23.7%	20.9%	\$28.09	-1.9%	\$28.63	\$27.77
<b>Greater Washington D.C. Total</b>	336,353	25,235	22,328	66,362	-0.6%	66,761	64,313	19.7%	-0.1%	19.8%	19.2%	\$37.82	0.4%	\$37.66	\$36.42
Greater Washington D.C. Total - Class A	210,346	18,590	15,380	42,879	0.4%	42,694	39,972	20.4%	0.1%	20.3%	19.2%	\$38.85	-1.0%	\$39.23	\$38.21

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(1) Percentage point change for availability rates.  
 Current and historical availability and rent data subject to change due to changes in inventory.  
 Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.  
 Statistics are calculated using both direct and sublease information.  
 Short-term sublet spaces (terms under two years) were excluded.  
 ^Unless otherwise noted, source for data is Savills Studley.  
 The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.  
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