

Global disruption caused by COVID-19 will test the resiliency of the DC office market

Uncertainty overcame the office market as the rapidly evolving COVID-19 pandemic, and actions implemented in March to slow the spread of coronavirus, have resulted in an unprecedented shutdown of activity in the District. It is impossible to know what the aftermath of current circumstances will look like. A bright spot on the other side of this event will likely be the strength of the region's core tenant base of government, legal and related sectors – which provides a safeguard relative to other metropolitan regions. In times of crisis, the government and related businesses often become more active, providing resiliency against a volatile economy. Times of uncertainty also often create unexpected opportunities for tenants. DC's office market is already skewed tenant-favorable, and it is likely that occupiers will see continued favorability with an increase in options and ongoing generous concession offerings over the coming quarters, after the crisis has passed.

Leasing slows to lowest quarterly amount in over two years, expected to drop further as concern unfolds

Quarterly leasing activity totaled just 1.8 million square feet (msf), the lowest amount seen since late 2017. Demand is expected to slow dramatically near term, as occupiers take stock of the crisis-related impact on their businesses. First-quarter demand was dominated by associations and nonprofits, accounting for 42.7% of activity, while government leasing was stagnant. The State Services Organization (SSO) signed the largest lease of the quarter, extending its term at the Hall of the States Building on Capitol Hill. Another notable transactions was law firm Mayer Brown's renewal at 1999 K Street NW (173,483 sf) in the Central Business District (CBD).

Availability ticks up ahead of any potential COVID-19 impact

Prior to the impact of COVID-19, overall availability had increased to 16.6% in the first quarter of 2020, marking a 50-basis-point increase over the quarter and a 70-basis-point increase over the year. The increase was primarily driven by several large blocks of space coming available as tenants – both government and private sector – shifted buildings. Overall asking rents increased 2.9% over the year, now at \$55.93 per square foot (psf). Class A rents followed a similar trend, up 3.4% over the year to \$60.45 psf. Average concessions for long-term Class A leases were at just over \$120.00 psf in improvement allowance and 16 months of free rent, and will be tracked closely as the pandemic impact continues to unfold.

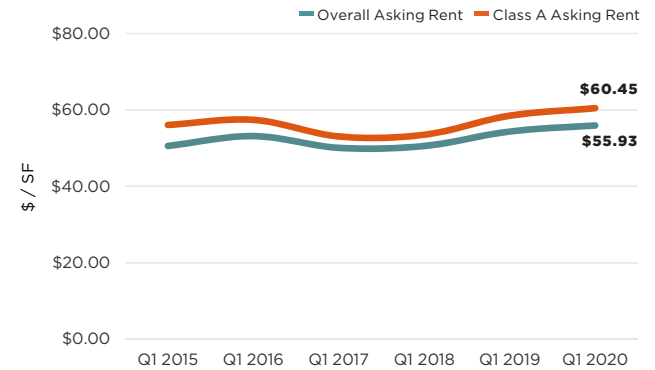
Outlook

- Availability in the DC market is already elevated and likely to increase near-term, tenant-favorable conditions will be heightened once market activity resumes
- Difficulty accessing materials globally and reduced labor force due to COVID-19 will impact the current development pipeline; delivery dates are likely to be pushed back as a result
- The DC office market's heavy reliance on government, legal, and related sectors may provide some cushion in the impact of ongoing economic disruption as it has in prior downturns

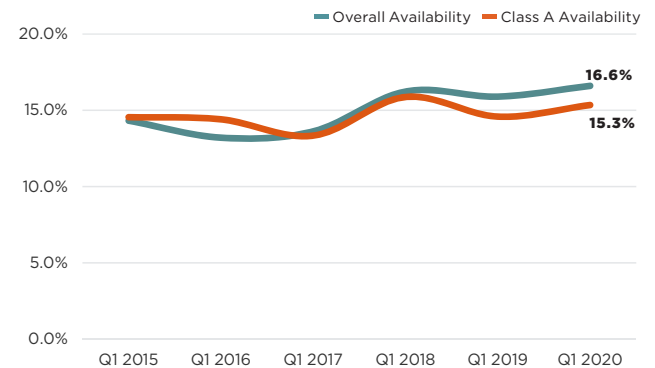
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	121.7 MSF	121.0 MSF	▼
Availability Rate	15.9%	16.6%	▲
Asking Rental Rate	\$54.36	\$55.93	▲
Class A Asking Rental Rate	\$58.49	\$60.45	▲
Quarterly Leasing Activity	2.1 MSF	1.8 MSF	▼

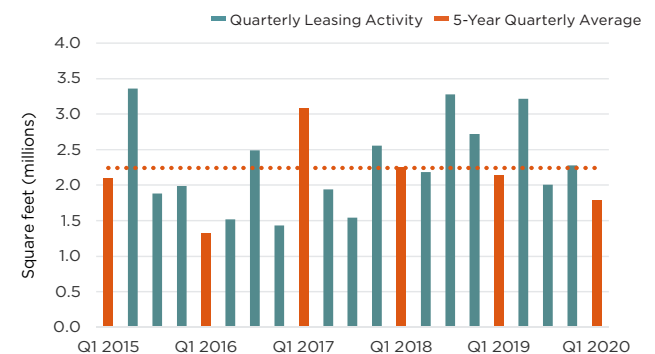
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

75.0%

of major transactions were renewals (and extensions) by square footage

39.2%

of major transactions occurred in the Central Business District by square footage

52.2%

Nonprofits and associations represented 52.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
State Services Organization (SSO)	237,062	400-444 N Capitol Street NW	Extension	Capitol Hill	Nonprofits and associations
Mayer Brown	173,483	1999 K Street NW	Renewal	Central Business District	Legal Services
Center for American Progress	76,616	1333 H Street NW	Renewal	East End/Convention Center	Nonprofits and associations
Wells Fargo	68,868	1700 K Street NW	Relocation	Central Business District	Financial Services
American Trucking Associations	59,526	80 M Street SE	Relocation	Capitol Riverfront	Nonprofits and associations
Campaign for Tobacco-Free Kids	36,246	1400 Eye Street NW	Renewal	East End/Convention Center	Nonprofits and associations
EveryAction	34,000	655 15th Street NW	Relocation	East End/Convention Center	TAMI
Axinn, Veltrop & Harkrider LLP	33,873	1901 L Street NW	Relocation	Central Business District	Legal Services
Comcast	32,711	300 New Jersey Avenue NW	Renewal	Capitol Hill	TAMI
Management Concepts, Inc.	31,317	919 18th Street NW	Renewal	Central Business District	Professional Services

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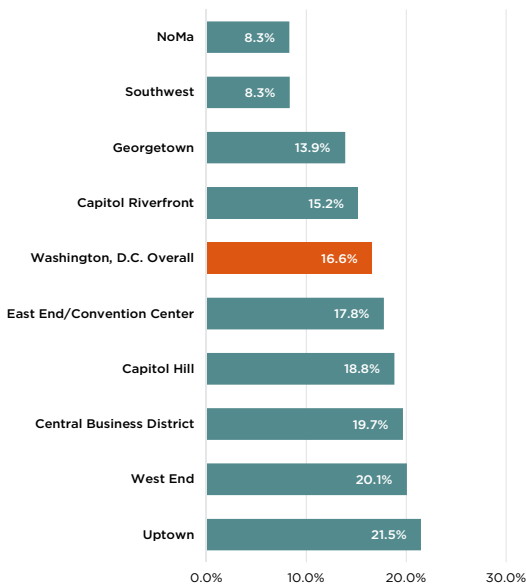
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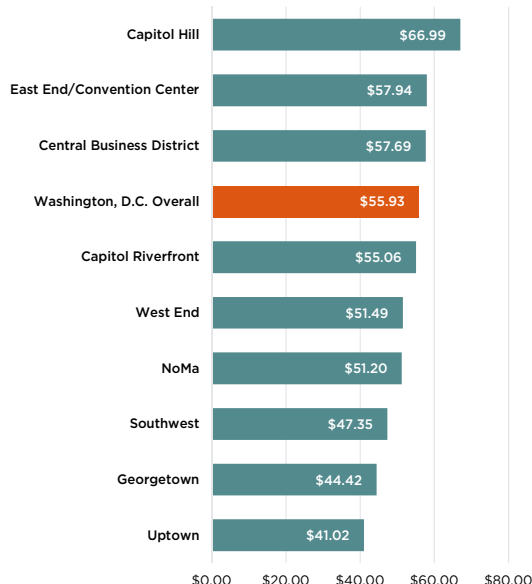
AVAILABILITY RATE COMPARISON

Washington, D.C. Submarkets



RENTAL RATE COMPARISON (\$/SF)

Washington, D.C. Submarkets



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. Current and historical availability and rent data are subject to change due to changes in inventory.

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