



## District sees record-level availability as a surge of sublease space hits the market

In the wake of COVID-19, sublease space flooded the D.C. market as many occupiers are focused on reducing real estate costs and, for many, the shift to work-from-home continues indefinitely. Since March, sublease availability has increased by 0.5 million square feet (msf), bringing the total amount of sublease space on the market to almost 3.0 msf. Sublease space now accounts for 13.0% of all available space for lease, up from 11.8% in Q1. The surplus of sublease space has pushed overall availability (direct and sublease space combined) to a new record-high rate of 18.1%. D.C. is suffering from oversupply caused by tenants shedding space and an onslaught of new construction delivering with limited pre-leasing.

### Demand sustained by leases that started prior to the pandemic

Even though six months have passed since pandemic onset and the city has entered phase two of reopening plans, many businesses are taking a tentative approach in their return to the office. There has been a significant drop in demand due to ongoing uncertainty caused by the pandemic and ambiguity surrounding the future of workplace trends. In the third quarter, leasing volume totaled 2.0 msf and was sustained by transactions that were in progress prior to the pandemic. Moving forward, and until there is more vaccine certainty, there will be fewer tenants starting the leasing process without pressure from an imminent lease expiration. Renewals comprised 67.5% of transactions this quarter as tenants look to extend in place until more economic and business clarity is achieved. Lease terms have also begun to shorten for most transactions, which likely demonstrates tenants' preference to postpone significant real estate commitments.

### Rising concessions reflect weakening market fundamentals and accelerating tenant favorability

Overall average asking rents saw little change over the quarter, now at \$55.62 per square foot (psf) for all classes. Class A asking rents saw a 1.1% quarterly decline (\$59.23 psf), but generally owners are holding firm on pricing. Concession offerings are a much stronger indicator of weakening market fundamentals. Concessions for new, long-term, Class A leases now average \$132.00 psf in tenant improvement dollars and 19 months of free rent, totaling \$238.00 psf in value – a new high mark. With owners competing for a limited pool of occupiers willing to sign leases in the current environment, tenants can expect generous concessions and favorable deal terms.

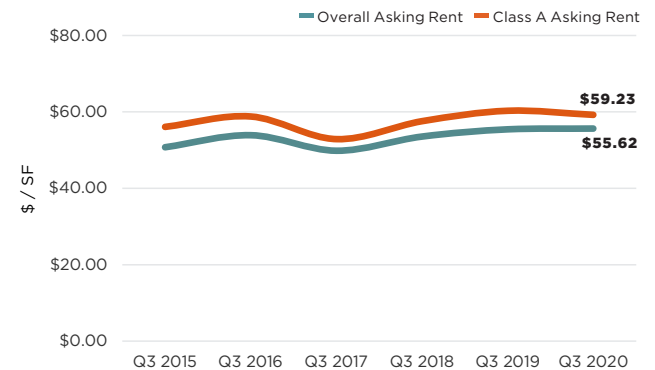
### Outlook

- D.C. will likely see additional sublease inventory in the coming quarters, but due to its core tenant base of the government and related sectors, the impact will be less severe than what is being experienced in most other major office markets
- The imbalance of supply and demand is pushing the market further into the tenant's favor
- Flexibility will be at the forefront of occupiers' minds as they look to quickly and effectively adapt to a changing world, and this may result in shorter lease terms and additional contraction and termination rights

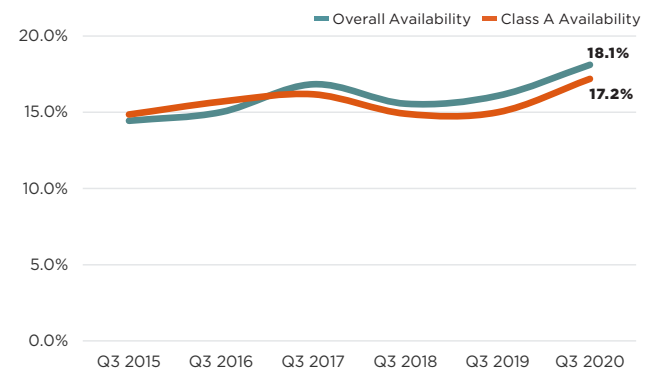
### KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	120.9 MSF	<b>121.5 MSF</b>	▲
Availability Rate	16.1%	<b>18.1%</b>	▲
Asking Rental Rate	\$55.43	<b>\$55.62</b>	▲
Class A Asking Rental Rate	\$60.30	<b>\$59.23</b>	▼
Quarterly Leasing Activity	2.0 MSF	<b>2.0 MSF</b>	◄►

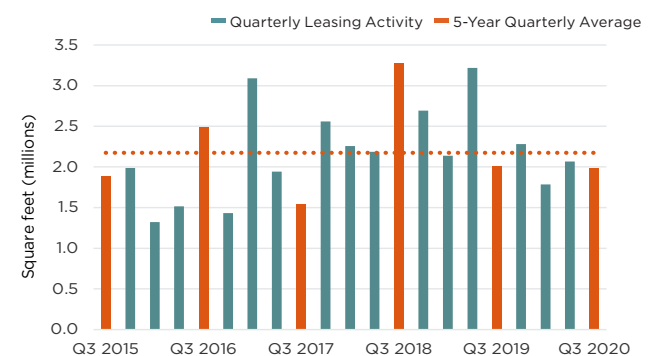
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

2 of 10

major transactions are **relocations or new locations**

39.1%

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

54.6%

**Government** sector tenants represented 54.6% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Federal Reserve System	319,898	1850 K St NW, 1875 I St NW & 1825 I St NW	Renewal	Central Business District	Government
Jones Day	234,900	51 Louisiana Ave NW & 300 New Jersey Ave NW	Renewal	Capitol Hill	Legal Services
GSA - Internal Revenue Service (IRS)	166,770	77 K Street NE	Renewal	NoMa	Government
Facebook	80,000	575 7th Street NW	Expansion	East End/Convention Center	TAMI
GSA - U.S. Secret Service	74,234	1111 18th Street NW	Renewal	Central Business District	Government
Microsoft Corporation Innovation & Policy Center	57,363	901 K Street NW	Renewal and Expansion	East End/Convention Center	TAMI
Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.	57,000	555 12th Street NW	Relocation	East End/Convention Center	Legal Services
District of Columbia Department of Employment Services (DOES)	56,042	400 Virginia Avenue SW	New Location	Southwest	Government
Texas A&M Bush School of Government & Public Service	47,418	1620 L Street NW	Renewal and Expansion	Central Business District	Education
Altria Client Services	36,460	101 Constitution Avenue NW	Renewal	Capitol Hill	Non-profit

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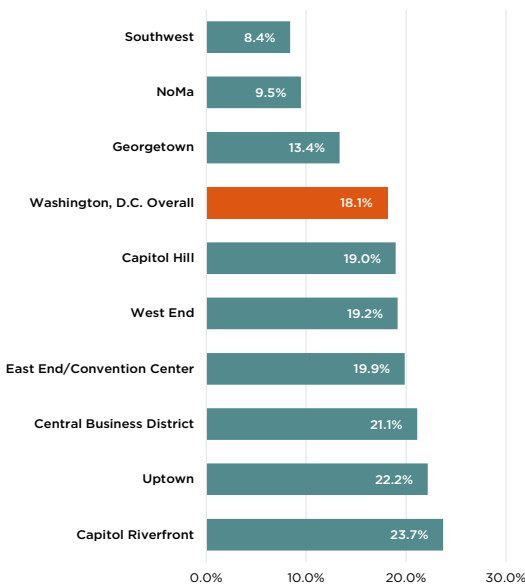
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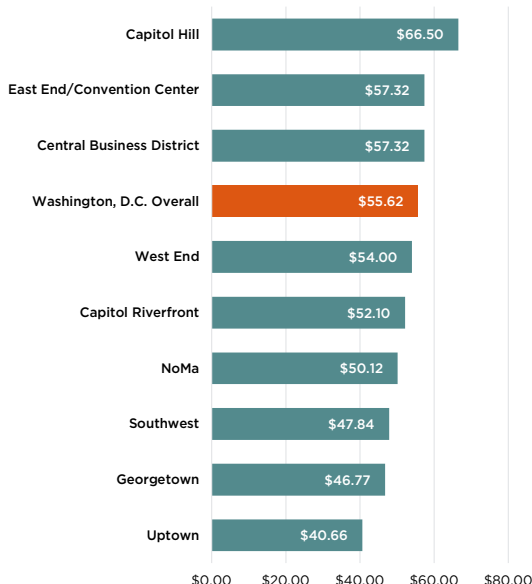
AVAILABILITY RATE COMPARISON

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.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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