MARKET IN MINUTES
Savills Research

Q1 2021

WASHINGTON, D.C.

One year of pandemic fallout brings record-low leasing and record-high availability to DC

The one-year anniversary of the COVID-19 pandemic has come and gone, and its impact continues to stifle the Washington, DC office market. Just 1.2 million square feet (msf) were leased in Q1 marking the lowest quarterly total on record. As vaccination becomes more widespread, companies are beginning to think about real estate plans again which may result in an eventual bounce back in demand later in the year. As tenants wait to lease space, lease less space, or return space to market, availability increased over the quarter from 19.4% to 20.4% – the highest rate the market has seen in at least three decades—and represents a dramatic rise from pre-pandemic levels when it was at an already-high 16.2%. In addition, sublease inventory has been on the rise and now accounts for 13.2% of total availability with the specter of additional sublease space potentially coming to market as tenants make decisions about space that has sat vacant over the last year.

Government continues to lead lackluster demand as occupiers plan for but postpone immediate real estate decisions

In the first quarter, almost half (48.8%) of all leasing activity came from the federal and local government providing some sustained demand. The top transaction completed was a 206,402-square-foot (sf) renewal for the DC Department of General Services - Department of Health (DOH) at 899 N. Capitol Street NE in NoMa. Long-term renewals and restructures made up 68.9% of transaction volume, and an additional 6.7% of volume came from short-term extensions. Staying in place may be in favor during the pandemic as tenants seek to avoid the capital required to build out new space and the disruption caused by a move. Short-term extensions, while not common, have become more frequent in recent quarters as tenants look to delay significant real estate decisions until there is more certainty surrounding the future of the workplace.

Unprecedented market challenges present unique market opportunity for tenants

Overall asking rents ended the quarter at $55.53 per square foot (psf) a nominal 0.7% decrease year-over-year. Class A asking rents have seen a greater shift, decreasing 2.9% over the last 12 months. However, asking rents tend to be a lagging indicator and are not telling of true softness – or tenant opportunity in the market. With availability at an all-time high and an overwhelming number of direct and sublease options, owners are being aggressive in pricing, concessions and flexibility to attract and retain tenants. New, long-term Class A leases receive on average $148.00 psf in tenant improvement allowances and 21 months of free rent, totaling $260.00 psf in value – an increase of just over $50.00 psf since the start of the pandemic – significantly reducing tenant effective rent.

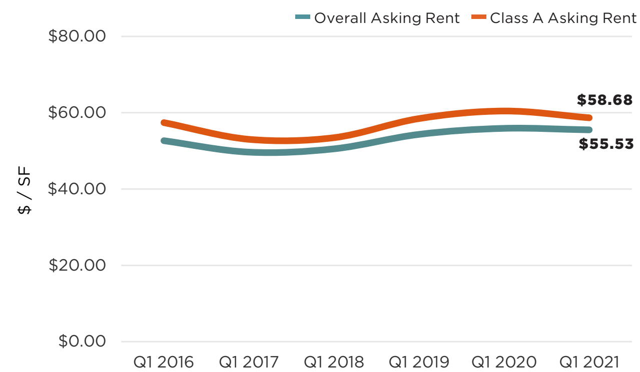
Outlook

- The full impact of remote work has not yet been felt but flexibility will be at the forefront of occupiers' minds as they evaluate their workplaces moving forward
- Post-pandemic, occupiers will focus more and more on flexibility through termination and contraction rights to be more nimble as their needs change over time
- Tenants that are active in the market have ample options to choose from and landlords can be expected to continue to offer generous concessions and compete heavily to attract and retain tenants

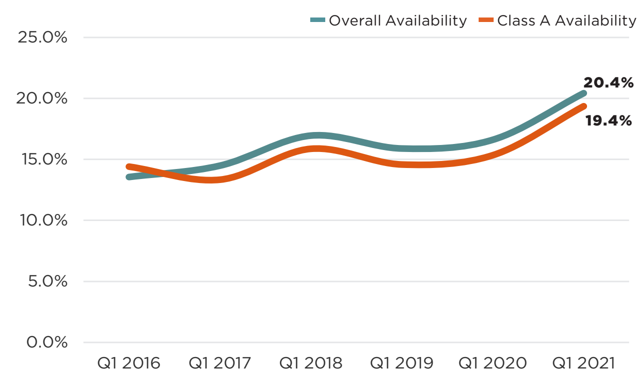
KEY STATISTICS

	Q1 2020	Q1 2021	y-o-y Change
Inventory	121.3 MSF	**121.3 MSF**	◀▶
Availability Rate	16.6%	**20.4%**	▲
Asking Rental Rate	$55.93	**$55.53**	▼
Class A Asking Rental Rate	$60.45	**$58.68**	▼
Quarterly Leasing Activity	1.8 MSF	**1.2 MSF**	▼

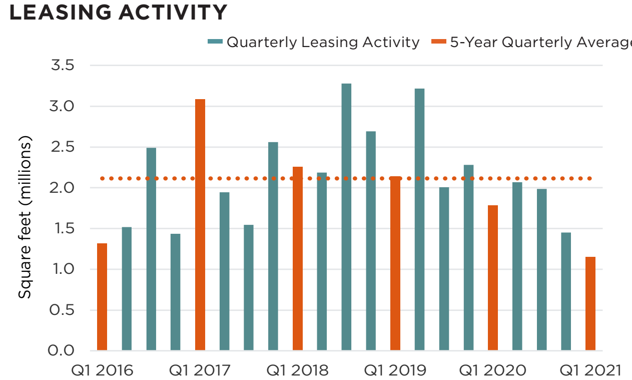
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

74.1%
of major transactions are **renewals** by square footage

55.0%
of major transactions occurred in the **NoMa** by square footage

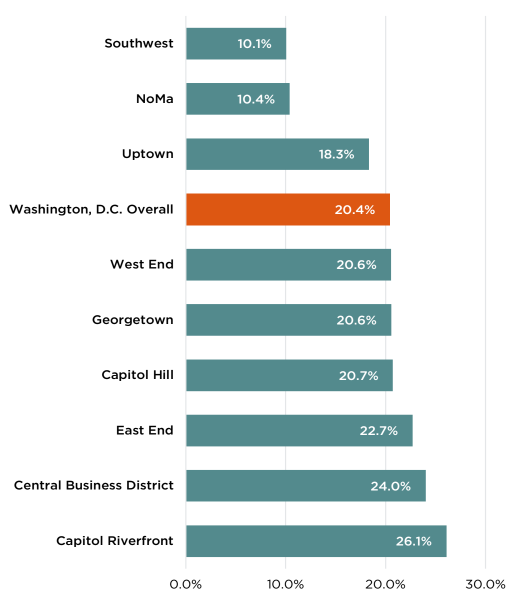
68.7%
Government sector tenants represented 68.7% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Department of Health (DOH)	206,402	899 N Capitol Street NE	Renewal	NoMa	Government
GSA - U.S. Department of Veterans Affairs (VA)	131,454	1100 1st Street NE	Renewal	NoMa	Government
Biotechnology Innovation Organization (BIO)	60,809	1201 New York Avenue NW	Relocation	East End	Non-profit
GSA - Federal Bureau of Investigation (FBI)	57,747	616 H Street NW	Extension	East End	Government
Foley Hoag LLP	33,178	1717 K Street NW	Renewal	Central Business District	Legal Services
CACI	32,812	300 M Street SE	Renewal	Capitol Riverfront	Professional Services
DC Department of General Services - Department of Human Services (DHS)	26,000	1207 Taylor Street NW	Renewal	Uptown	Government
WDG Architecture	25,000	1025 Connecticut Avenue NW	Renewal	Central Business District	Architecture
Nava	20,493	1445 New York Avenue NW	Relocation	East End	Non-profit
Fincantieri Marine Group, LLC	20,102	655 15th Street NW	Relocation	East End	Transportation

Source Savills Research

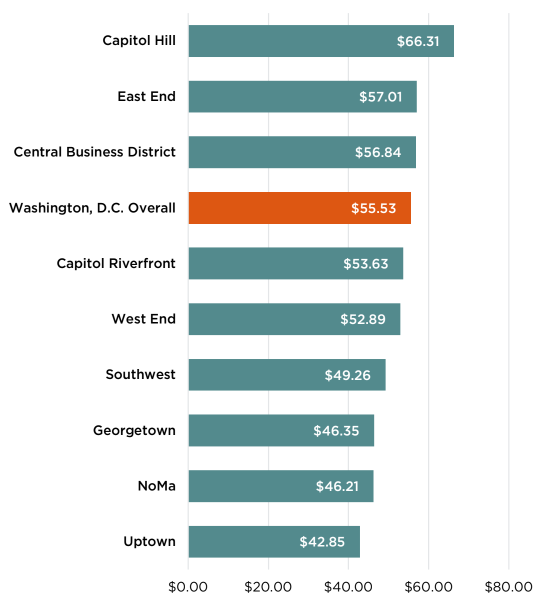
AVAILABILITY RATE COMPARISON

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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