

## D.C.'s reopening and reoccupancy has begun, tenants adapt to new conditions

After spending months in an unprecedented government-mandated shutdown caused by the COVID-19 pandemic, Washington, D.C. has begun a phased economic and business reopening, and a return to offices that have long sat vacant. Those organizations that are returning to a shared physical workplace are certainly operating under much different circumstances with employee safety and virus control the top priorities. Companies that need to make upcoming real estate decisions will find it challenging to make long-term projections on workforce, capital and space needs, given uncertainty about the long-term trend for remote working, whether restrictive health guidelines are short- or long-term phenomena, and the interdependence of both factors.

### Leasing activity improved from Q1, buoyed by core tenant base of government and law firm tenants

Second-quarter leasing activity totaled 2.1 million square feet (msf), marking a 18.1% increase from Q1 (1.8 msf). Despite the shutdown, volume was nearly on par with the market's five-year average of 2.2 msf per quarter. Occupiers showed a slight preference to stay in current locations rather than relocating, with 52.3% of transactions comprised of renewals. Unsurprisingly, the government sector was most active, accounting for 38.3% of demand with several large renewals and extensions. In the largest new lease of the quarter, law firm Wiley Rein LLP committed to 166,250 square feet (sf) in Tishman Speyer's 2050 M Street NW, a new trophy location. The firm is contracting from more than 300,000 sf originally leased across 1750 and 1776 K Street NW, leaving a sizeable vacancy to fill.

### Availability at its highest since the Great Recession, concessions reach new high-water mark for long-term Class A leases

Even with relatively strong demand, the return of space to market was unavoidable given the current economic contraction. Overall availability increased 100 basis points over the quarter, swelling to 17.6% – its highest since Q3 2009. Overall asking rents saw almost no change over the quarter, now at \$55.86 per square foot (psf), although that is expected to change as landlords adjust to the new reality. Class A asking rents saw a nominal 0.9% decrease to \$59.89 psf. While D.C.'s asking rents don't typically rise and fall significantly with the health of the economy (or fluctuations in availability), the increased level of concessions continue to validate underlying tenant-favorable conditions. For long-term, new, Class A leases, concessions currently average \$127.00 psf in tenant improvement allowance and 17 months of free rent, totaling \$220.00 psf in combined value.

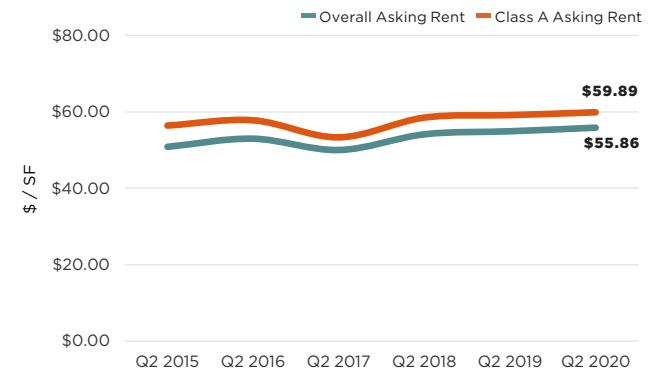
### Outlook

- Availability will remain elevated and may increase further in the near term as tenant demand remains tepid
- Leasing activity has been sustained by the government and related sectors, but it is not expected to be enough to keep the market from weakening further in the months ahead
- Though tenants undoubtedly face uncertain circumstances in today's environment, those that can or have to make real estate decisions will benefit from plentiful options and increasingly generous concessions

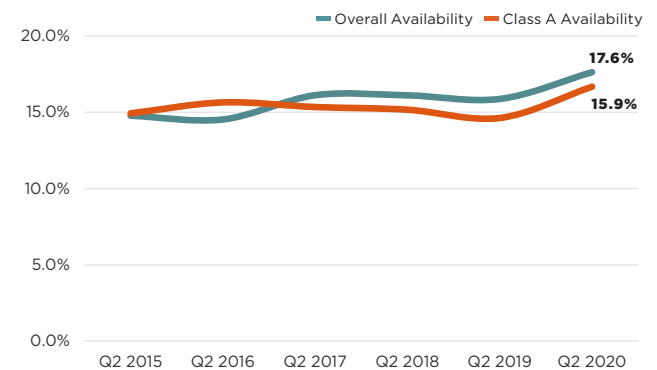
### KEY STATISTICS

	Q2 2019	Q2 2020	y-o-y Change
Inventory	121.1 MSF	<b>121.5 MSF</b>	▲
Availability Rate	15.9%	<b>17.6%</b>	▲
Asking Rental Rate	\$54.94	<b>\$55.86</b>	▲
Class A Asking Rental Rate	\$59.17	<b>\$59.89</b>	▲
Quarterly Leasing Activity	3.2 MSF	<b>2.1 MSF</b>	▼

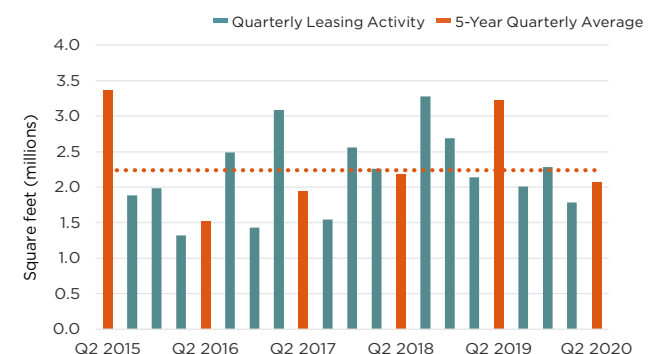
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

74.8%

of major transactions were renewals and extensions by square footage

30.0%

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

50.2%

Government sector tenants represented 50.2% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - Department of Education	290,000	550 12th Street SW	Renewal	Southwest	Government
GSA - Department of Homeland Security's Citizen and Immigration Services	287,000	111 Massachusetts Avenue NW	Extension	NoMa	Government
Wiley Rein LLP	166,250	2050 M Street NW	Relocation	Central Business District	Legal Services
Palantir Technologies	104,777	1025 Thomas Jefferson Street NW	Renewal	Georgetown	Professional Services
National Endowment for Democracy (NED)	82,329	1201 Pennsylvania Avenue NW	Relocation	East End/Convention Center	Non-profit
Radio Free Asia (RFA)	80,000	2025 M Street NW	Renewal and Expansion	Central Business District	Non-profit
Berkeley Research Group, LLC (BRG)	68,216	1800 M Street NW	Renewal	Central Business District	Professional Services
Uber Technologies	55,133	1717 Rhode Island Avenue NW	New Location	Central Business District	TAMI
American Farm Bureau Federation	53,176	600 Maryland Avenue SW	Renewal	Southwest	Non-profit
Institute for International Education (IIE)	44,462	1400 K Street NW	Renewal	East End/Convention Center	Non-profit

Source Savills Research

For more information, please contact us:

**Savills**  
1201 F Street, NW  
Suite 500  
Washington, DC 20004  
+1 202 628 6000

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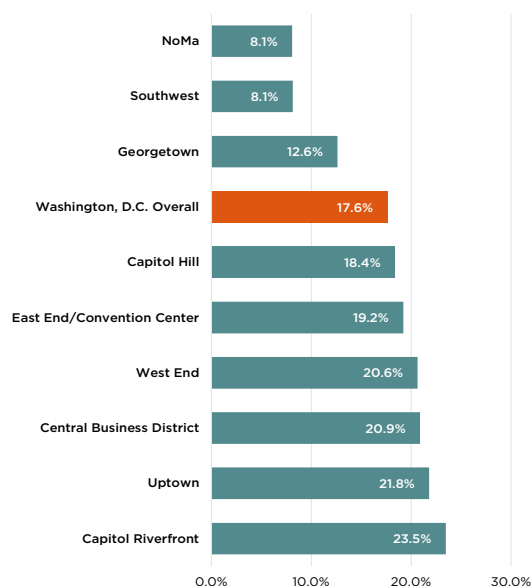
**Devon Munos**  
Research Manager  
(202) 624-8550  
dmunos@savills.us

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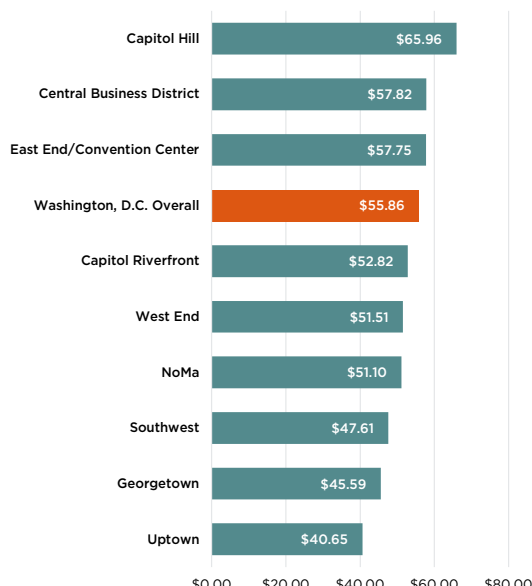
AVAILABILITY RATE COMPARISON

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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