

## Sublease inventory begins to taper off, but overall availability still hits new record high

As the pandemic stretches into its second year, overall availability hit another record-high rate for the market, now at 21.1%. This includes both direct and sublet space combined, however the latter has begun to taper off through the first half of 2021. Of the sublease space that was added to the market since the start of the pandemic, 7.8% has been withdrawn and is no longer being marketed. D.C.'s sublease availability has fallen from a high of 3.4 million square feet (msf) at the end of last year to 3.2 msf as of Q2. While sublease inventory is declining, direct availability continues to surge and has increased by 10.6% through the first two quarters of 2021. Limited demand is a key factor driving oversupply, along with a robust 2.5-msf development pipeline - of which less than 50% is preleased. Notable projects that have seen little-to-no preleasing include 1771 N Street NW, 699 14th Street NW, 1255 Union Street NE, 670 Maine Avenue SW and 2100 M Street NW. Our availability rate includes not only vacant space, but also what could be occupied in the next 12 months, so as these buildings near completion with large blocks unleased, availability pushes higher.

### Leasing from the government and related sectors brings activity back closer to the five-year quarterly average

After three consecutive quarters of activity declining, Q2 leasing volume rebounded to 2.0 msf - nearly double what was recorded in Q1 (1.2 msf). The District's core tenant base continues to sustain activity with the government accounting for 51.0% of transactions seen this quarter, followed by professional services (13.7%), associations and nonprofits (13.5%), and legal services (8.7%). Renewals made up 57.2% of activity, which helped boost quarterly volume, but do nothing to chip away at oversupply.

### D.C.'s concessions remain sky-high, even as asking rents hold firm, as owners compete aggressively to attract and retain tenants

Overall asking rents ended the quarter at \$55.31 per square foot (psf) a nominal 1.0% decrease year over year. Class A asking rents have seen a greater shift, decreasing 2.4% over the last 12 months to \$58.45 psf. While asking rents are holding firm, the District's already record-high concessions have soared. Concession packages for new, long-term, Class A leases now average \$147.00 psf in tenant improvement allowances and 23 months of free rent, totaling \$270.00 psf in total value - a 30.9% increase since the start of the pandemic. Free rent has risen the most aggressively since March 2020, increasing by seven months on average for a transaction term of ten years or greater.

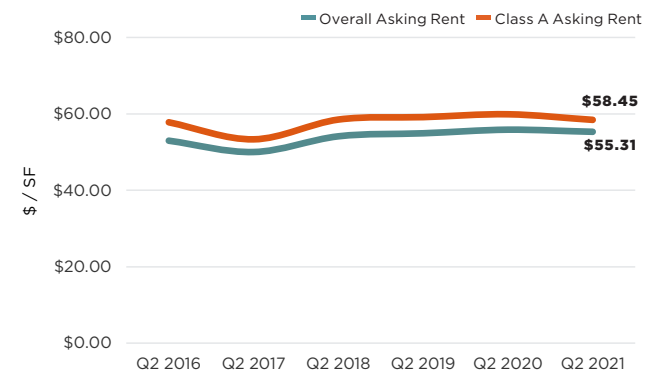
### Outlook

- As the world re-opens, masks begin to disappear, and employees return to work, leasing activity is likely to increase, but it is yet to be seen what the longer-term impacts on space demand and usage will be
- Elevated availability will keep most landlords offering generous concessions and competing heavily to attract and retain tenants
- Without new tenants entering the market, the current supply-demand imbalance will keep leasing conditions in the tenant's favor for the foreseeable future

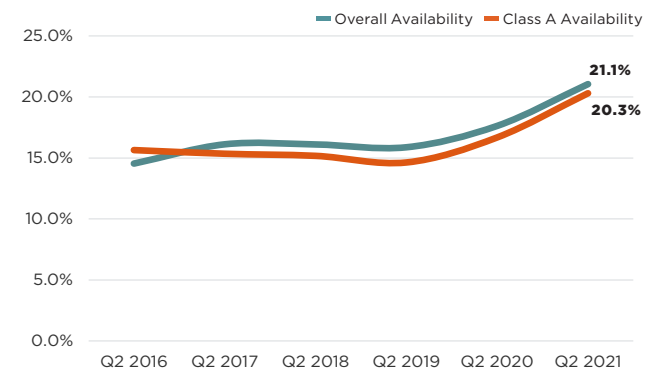
### KEY STATISTICS

	Q2 2020	Q2 2021	y-o-y Change
Inventory	121.7 MSF	<b>121.4 MSF</b>	▼
Availability Rate	17.6%	<b>21.1%</b>	▲
Asking Rental Rate	\$55.86	<b>\$55.31</b>	▼
Class A Asking Rental Rate	\$59.89	<b>\$58.45</b>	▼
Quarterly Leasing Activity	2.1 MSF	<b>2.0 MSF</b>	▼

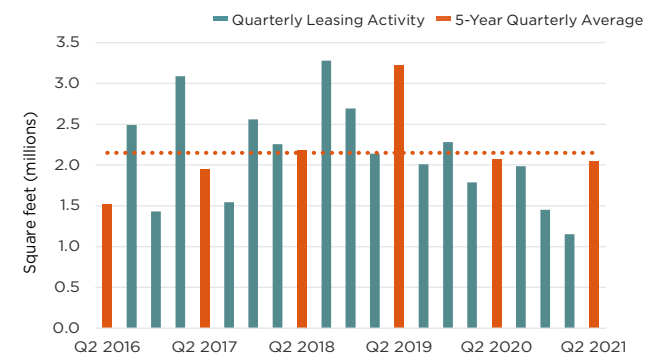
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

50.0%

of major transactions chose to stay in place

38.3%

of major transactions occurred in the East End by square footage

30.1%

Government sector tenants represented 30.1% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - U.S. Small Business Administration (SBA)	264,807	409 3rd Street SW	Renewal	Southwest	Government
Boston Consulting Group	97,779	655 15th Street NW	New Location	East End	Professional Services
Enovational	97,000	1400 L Street NW	Relocation	East End	TAMI
Patient Centered Outcomes Research Institute (PCORI)	96,092	1333 New Hampshire Avenue NW	Relocation	Central Business District	Non-profit
American Bankers Association (ABA)	87,000	1333 New Hampshire Avenue NW	Relocation	Central Business District	Non-profit
Pacific Architects and Engineers (PAE)	77,285	1099 14th Street NW	New Location	East End	Professional Services
Jenner & Block	65,000	1099 New York Avenue NW	Renewal	East End	Legal Services
Veracity Engineering	33,466	955 L'Enfant Plaza SW	Renewal	Southwest	Professional Services
AT&T	31,522	601 New Jersey Avenue NW	Renewal and Expansion	Capitol Hill	TAMI
Development Transformations	29,520	1625 Eye Street NW	Renewal	Central Business District	Professional Services

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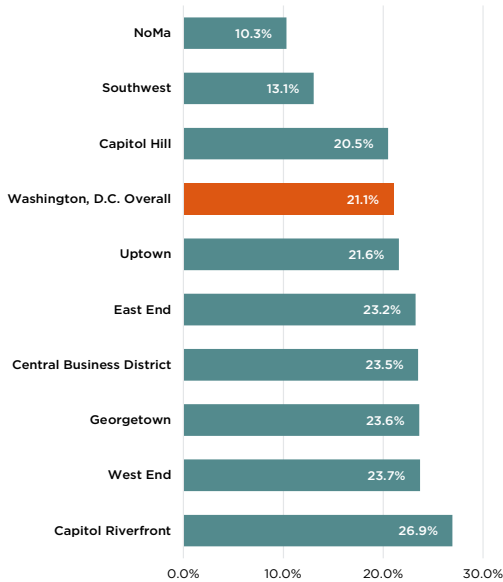
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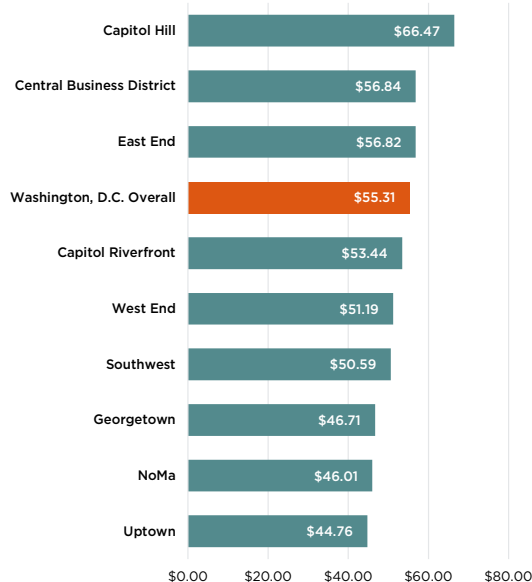
AVAILABILITY RATE COMPARISON

Washington, D.C. Submarkets



RENTAL RATE COMPARISON (\$/SF)

Washington, D.C. Submarkets



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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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