MARKET IN MINUTES

Savills Research

Q3 2019

WASHINGTON, D.C.

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Availability holds, asking rents push upwards as development pipeline remains active

Overall availability in Washington, D.C. ended the third quarter at 15.8%, up 20 basis points quarter over quarter, but ultimately unchanged over the year. Class A availability followed a similar trend, holding flat at 15.0%. Still, owners continue to push asking rents in top-tier product. More than 2.0 million square feet (msf) has delivered so far this year, with an additional 4.5 msf under construction. Accordingly, Class A asking rents increased by 1.6% over the quarter, now at $59.91 per square foot (psf). With nearly one third of all development activity concentrated in the Central Business District (CBD) submarket, Class A rents there are topping out at $64.86 psf – the highest in the city.

CBD availability hits new high, lower floors present opportunity

With this influx of new development, CBD availability has hit a record high. Overall availability ended the quarter at 16.5%, up 130 basis points over the year. As new product continues to lease from the top down, "muffin top" opportunities are abundant on middle and lower floors. Tenants receive a substantial face rate discount when looking at the bottom half of buildings, while still benefiting from high-quality space and abundant amenities. On average, the base rent spread between top and lower floors within this competitive set is $9.00 psf on a NNN basis. Concessions stayed comparable, however, with average free rent of 18 months for both sets and an average of $124.00 psf in lower-floor improvement allowances compared to $133.00 psf on top floors.

Leasing pace slows, market growth uncertain as WeWork halts leasing

After a strong start to the year, the pace of leasing slowed in Q3 with just 2.0 msf leased. Government tenants still lead leasing, accounting for 37.8% of activity seen. Coworking followed close behind (15.1%) and has been critical to absorption in recent years. While most industries continue to do more with less space, coworking providers have fueled any net growth seen in the market – rapidly expanding with numerous new locations per quarter. WeWork's recent IPO implosion brings this growth into question as new management has halted future expansion (after an additional 131,000 sf was added at 655 New York Avenue NW this quarter). Going forward, owners may be more reluctant to fill space with WeWork tenancy and the market is watching closely for the resulting impact.

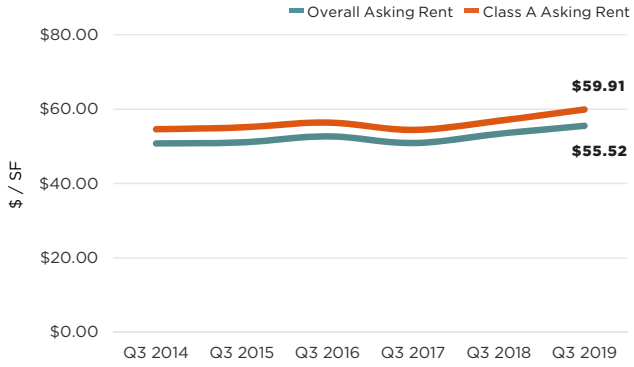
Outlook

- Availability will remain elevated as construction continues, particularly in areas where development is concentrated
- Increases in asking rent are offset by generous concession packages as landlords compete to fill buildings in a tenant's market
- With several large relocations signed this year, additional upward pressure will be placed on availability as tenants shift to new and smaller spaces

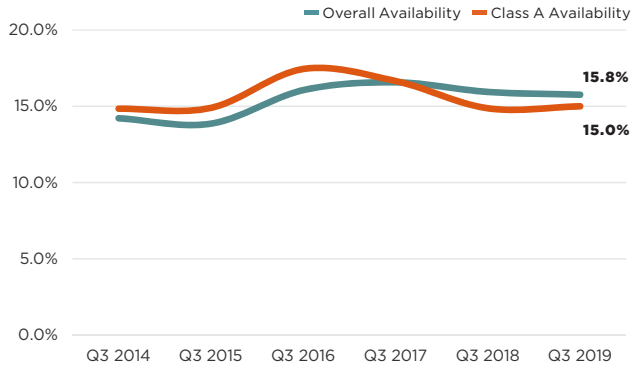
KEY STATISTICS

	Q3 2018	Q3 2019	y-o-y Change
Inventory	121.9 MSF	**123.9 MSF**	▲
Availability Rate	15.9%	**15.8%**	▼
Asking Rental Rate	$53.37	**$55.52**	▲
Class A Asking Rental Rate	$56.87	**$59.91**	▲
Quarterly Leasing Activity	3.3 MSF	**2.0 MSF**	▼

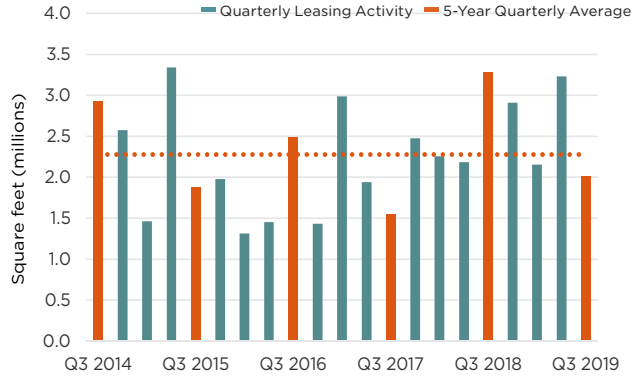
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

50/50
major transactions were evenly split between **renewals and new locations**

56.4%
of major transactions occurred in the **East End**

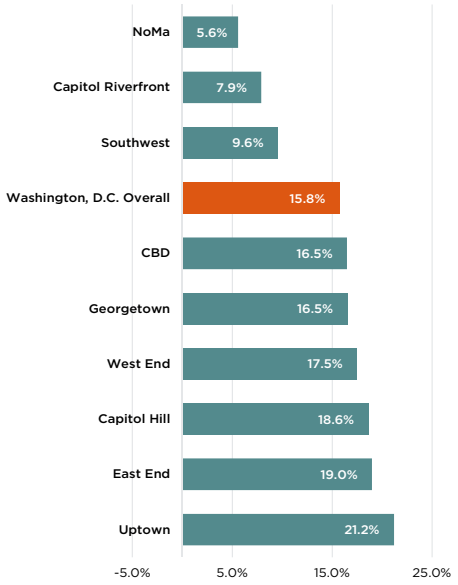
56.1%
Government represented 56.1% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
DC Office of the Attorney General	199,736	601 D Street NW	Relocation	East End	Government
EAB Global Inc	148,452	2445 M Street NW	Renewal	West End	Professional Services
WeWork	131,000	655 New York Avenue NW	New Location	East End	Coworking
GSA - Department of Justice	70,000	1275 1st Street NE	Relocation	NoMa	Government
GSA - Department of Homeland Security	66,304	650 Massachusetts Avenue NW	Renewal	East End	Government
Bank of America	61,722	1800 K Street NW	Renewal	CBD	Financial Services
GSA - Immigration and Customs Enforcement	61,231	1201 Maryland Avenue SW	Renewal	Southwest	Government
National Democratic Institute	57,991	455 Massachusetts Avenue NW	Renewal	East End	Government
The Associated Press	57,646	1100 13th Street NW	Restructure	East End	Assocations & Nonprofits
DC Office of the Inspector General	55,000	100 M Street SE	Relocation	Capitol Riverfront	Government

Source Savills Research

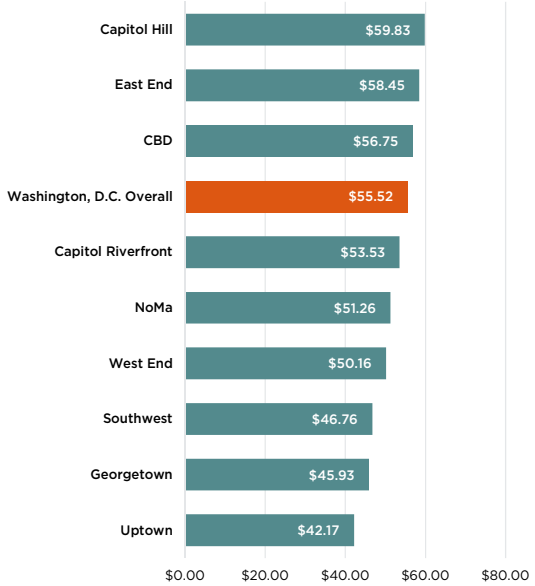
AVAILABILITY RATE COMPARISON

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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