

DC office dynamics hold steady with availability stabilizing and leasing exceeding pre-COVID quarterly norms

Availability surged for seven straight quarters through the pandemic, but it has finally leveled off in Q3, holding flat quarter over quarter. In Q1 2020, availability was 16.6% and has now reached 21.1% – holding flat when compared to last quarter (21.1%). This was partially helped by sublease availability reducing. Sublease availability hit a high at the end of 2020 with 3.4 million square feet (msf) on the market which, as of Q3 2021, has fallen to 3.0 msf as many organizations have been successful at subleasing their space or have taken it off the market as they decide to re-occupy it. Leasing has picked up substantially, totaling 3.0 msf and is above the five-year quarterly average of 2.2 msf. The government was the driving force behind demand with a massive 1.2-msf lease for the Securities and Exchange Commission and several significant renewals. While the market may not be deteriorating at the rate it was earlier in the year, it remains exceptionally soft, and it will take time and substantial leasing activity to reverse the pandemic's effects.

Development pipeline slows with the majority of construction delivering within a year

New office deliveries have been feeding the rising availability rate in the decade preceding the pandemic and paired with the depleted demand caused by the public health crisis, oversupply has soared. New construction inventory is only half preleased, leaving large blocks of vacant space entering the D.C. office market upon delivery. However, the ongoing construction in D.C. may at last come to an end as developers have become wary of starting any speculative new construction amongst weakened market conditions. Of the 2.3 msf of development underway, two thirds of it is set to deliver within a year. If construction in progress continues to dwindle, availability may be subdued in the near-term as a result.

D.C.'s asking rents up year over year, but so are concessions

Overall asking rents ended the quarter at \$55.82 per square foot (psf), up slightly from \$55.62 year over year. Class A asking rents are similarly up year over year, now averaging \$59.67 psf. Savills average asking rents are calculated from space currently available and what will be ready for occupancy in the next 12 months. With so much office construction just crossing the one-year mark until delivery, average asking rents remain elevated due to the additional prime space available. And while asking rents may seem strong at face value, hefty concession packages continue to validate underlying tenant-favorable conditions. New, long-term, Class A leases now receive an average of \$147.00 psf in tenant improvement allowances and 22 months of free rent totaling \$267.00 psf in total value.

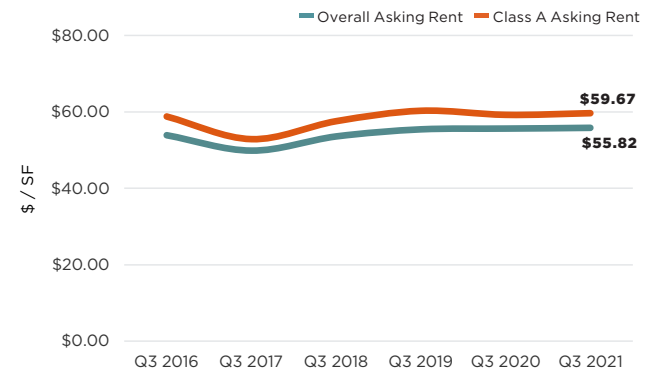
Outlook

- A shrinking development pipeline may help availability remain stable or wane in the near- to mid-term
- Sublease supply has tapered off and any new sublease space added to the market moving forward will likely be a result of permanent space reductions and re-evaluation of office space needs
- More occupiers are re-engaging the market as landlords get increasingly aggressive to secure new tenants and retain their current clientele by offering flexible terms and generous concessions

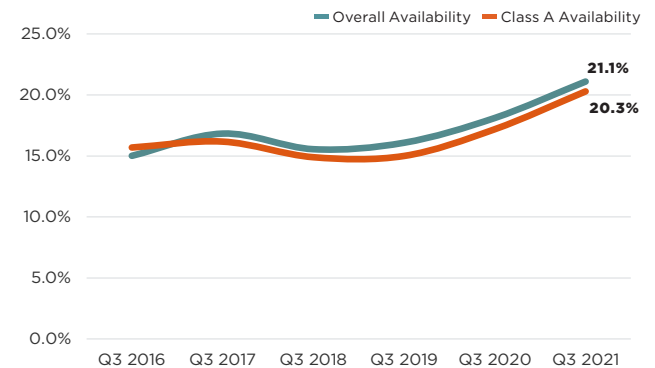
KEY STATISTICS

	Q3 2020	Q3 2021	y-o-y Change
Inventory	121.7 MSF	121.1 MSF	▼
Availability Rate	18.1%	21.1%	▲
Asking Rental Rate	\$55.62	\$55.82	▲
Class A Asking Rental Rate	\$59.23	\$59.67	▲
Quarterly Leasing Activity	2.0 MSF	3.0 MSF	▲

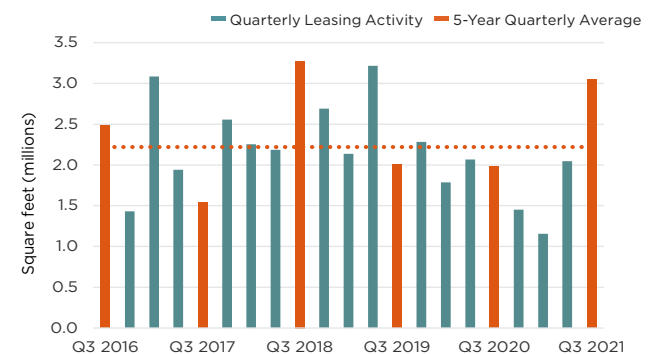
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

8 of 10

major transactions chose to stay in place

58.4%

of major transactions occurred in the NoMa by square footage

82.0%

Government sector tenants represented 82.0% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - Securities and Exchange Commission	1,229,345	60 New York Avenue NE	Relocation	NoMa	Government
GSA - Federal Emergency Management Agency	301,384	500 C Street SW	Renewal	Southwest	Government
U.S. Department of Veterans Affairs	217,000	1800 G Street NW	Renewal	Central Business District	Government
Dentons	126,876	1900 K Street NW	Renewal	Central Business District	Legal Services
Sterne Kessler Goldstein & Fox	71,705	1101 K Street NW	Relocation	East End	Legal Services
Morning Consult	63,934	1025 F Street NW	Expansion	East End	TAMI
GSA - Federal Maritime Commission	59,010	800 N Capitol Street NW	Renewal	NoMa	Government
Guidehouse	51,118	1200 19th Street NW	Renewal	Central Business District	Professional Services
MediaLinks	46,304	1099 New York Avenue NW	Renewal	East End	TAMI
Cushman & Wakefield	38,006	2101 L Street NW	Renewal	Central Business District	Real Estate

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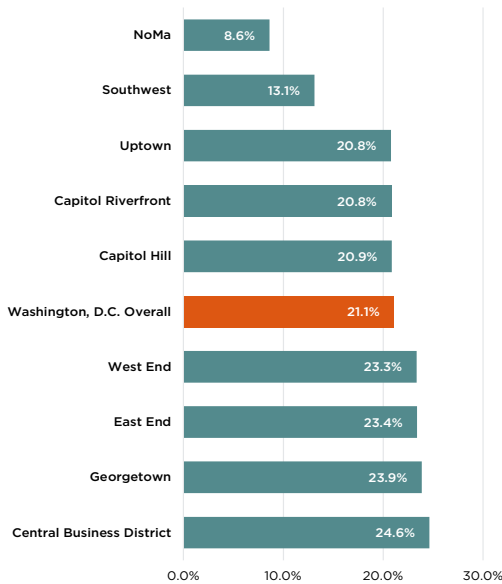
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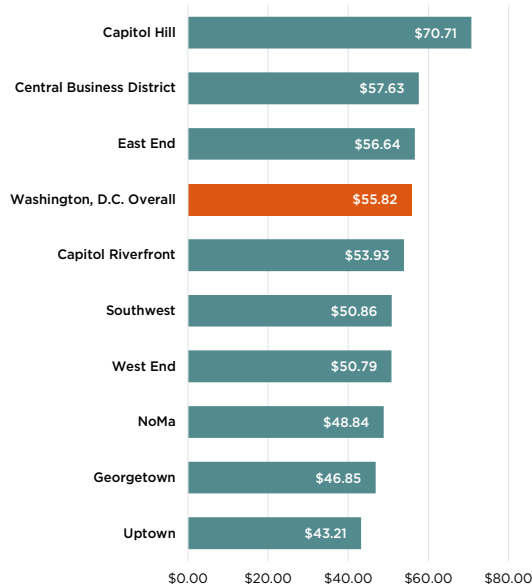
AVAILABILITY RATE COMPARISON

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.

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