

Availability skyrockets to new record-high rate, pushing the market further into the tenant's favor

The District has been a tenant-favorable market for over a decade, but the effects of COVID-19 have only amplified these conditions. In the fourth quarter, overall availability surged to 19.4%, eclipsing the previous record hit just last quarter (18.1%). This marks an increase of 130 basis points (bps) over the quarter and 330 bps over the year. The current rise in availability comes in part from the rapid return of sublease space to market. Over the quarter, sublease inventory grew by 0.5 million square feet (msf), bringing the total amount of available sublease space to 3.4 msf – a new high. DC's supply and demand imbalance has gone further off-kilter as many organizations continue to take a “wait and see” approach to future office space planning, exacerbating the demand shortfall.

Leasing activity continues to fall as organizations delay real estate decisions

Transactions that were in progress prior to the pandemic have run their course or stalled and few tenants are willing to start the leasing process amidst current conditions. A total of 1.5 msf was leased this quarter, representing a 36.4% drop compared to Q4 2019. Of that activity, the General Services Administration (GSA) was responsible for more than a third. In Q4, 44.5% of transactions were extensions, which is likely a result of companies looking to postpone significant lease commitments where possible until there is a more clear and certain return-to-office timeline.

Concessions climb without a ceiling in sight as landlords compete for limited tenants in the market

Overall asking rents have held steady throughout the public health crisis, declining just 1.3% year-over-year at \$55.24 per square foot (psf), but are not truly indicative of current leasing conditions. Class A asking rents are experiencing decline, down 3.5% from the same time last year, ending the quarter at \$58.60 psf. The real indicators have been the steadily increasing amounts of rental abatement and tenant improvement allowances. Concessions for new, long-term Class A leases now average \$139.00 psf in tenant improvement dollars and 21 months of free rent, totaling \$250.00 psf in value – a 25% increase since the start of the pandemic. Free rent has risen the most aggressively since March, increasing by five months on average for a 10-year transaction or greater.

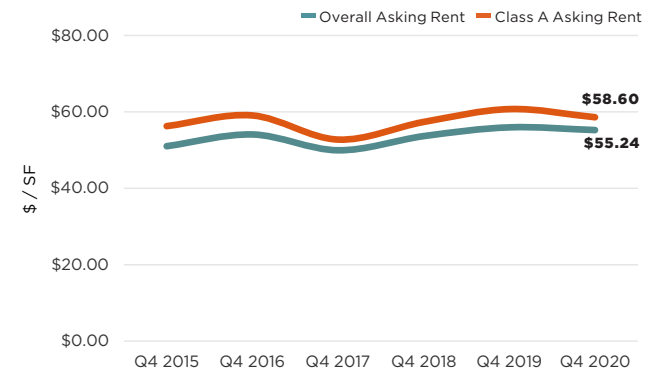
Outlook

- A vaccine rollout on the horizon is driving many tenants to think about their real estate plans again, but it will take time and substantial leasing activity to reverse the current oversupply of office space
- Landlords will continue to offer competitive concessions and be creative in finding ways to incentivize new occupants and retain current tenants
- COVID-19 rattled the DC office market and will have a lasting effect on trends in 2021 such as new workplace concepts, remote work flexibility and the incorporation of wellness into workplace design

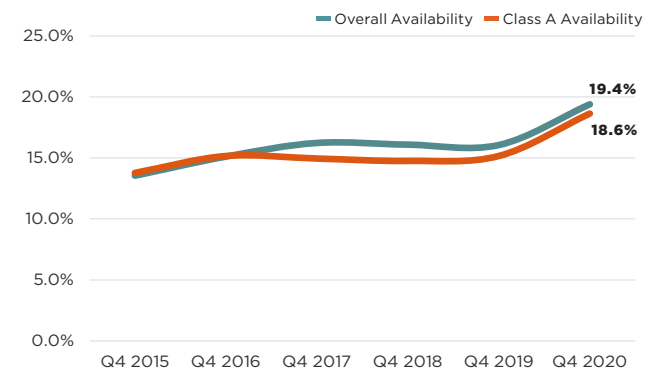
KEY STATISTICS

	Q4 2019	Q4 2020	y-o-y Change
Inventory	121.0 MSF	121.8 MSF	▲
Availability Rate	16.1%	19.4%	▲
Asking Rental Rate	\$55.97	\$55.24	▼
Class A Asking Rental Rate	\$60.76	\$58.60	▼
Quarterly Leasing Activity	2.3 MSF	1.5 MSF	▼

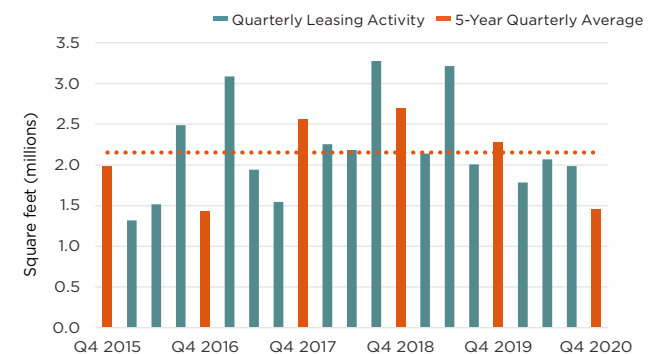
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

61.1%

major transactions are **extensions** by square footage

32.1%

of major transactions occurred in the **East End** by square footage

56.7%

Government sector tenants represented 56.7% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
GSA - U.S. Small Business Administration (SBA)	266,193	409 3rd Street SW	Extension	Southwest	Government
Skadden, Arps, Slate, Meagher & Flom LLP	199,902	1440 New York Avenue NW & 700 14th Street NW	Extension	East End/Convention Center	Legal Services
General Services Administration (GSA)	95,444	1800 G Street NW	Extension	Central Business District	Government
General Services Administration (GSA)	63,798	1575 Eye Street NW	Renewal	Central Business District	Government
Willkie Farr & Gallagher LLP	59,316	1875 K Street NW	Renewal	Central Business District	Legal Services
District of Columbia Department of General Services	53,372	100 M Street SE	New Location	Capitol Riverfront	Government
Morning Consult	49,126	1025 F Street NW	Relocation	East End/Convention Center	TAMI
American Association of Retired Persons (AARP)	46,372	620 F Street NW	Restructure	East End/Convention Center	Non-profit
Kaiser Permanente	43,978	2301 M Street NW	Renewal	West End	Healthcare
District of Columbia Department of General Services	42,289	1015 Half Street SE	New Location	Capitol Riverfront	Government

Source Savills Research

For more information, please contact us:

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

Thomas M. Fulcher, Jr.
Vice Chairman, Director

David Lipson
Vice Chairman, Director

Ben Plaisted
Executive Vice President

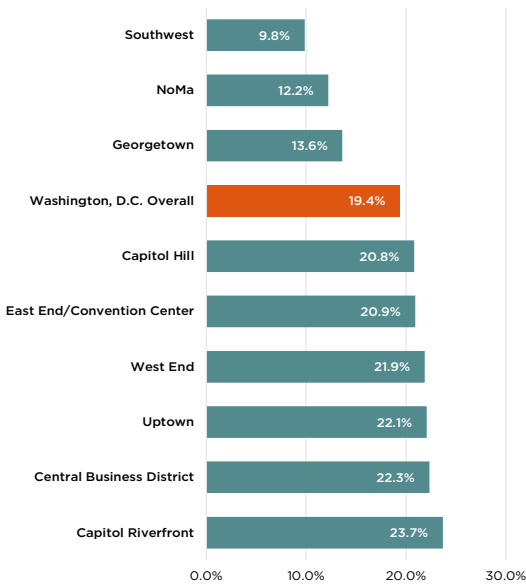
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Vice Chairman

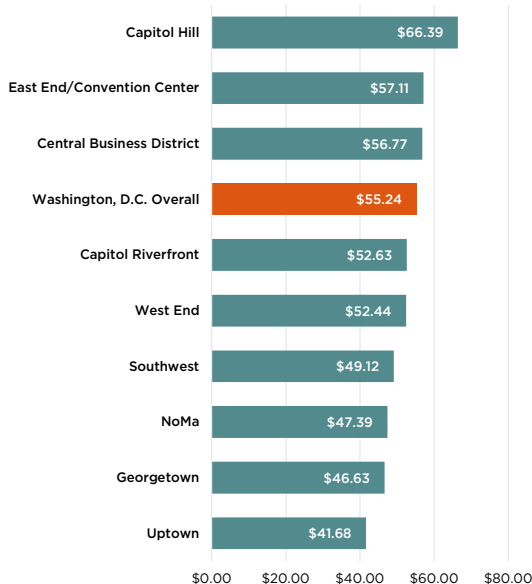
AVAILABILITY RATE COMPARISON

Washington, D.C. Submarkets



RENTAL RATE COMPARISON (\$/SF)

Washington, D.C. Submarkets



Devon Munos
Research Director,
Mid-Atlantic and
Southeast Regions
(202) 624-8550
dmunos@savills.us

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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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