

# Washington, D.C.

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## Washington, D.C. sees slowdown in leasing demand to start the year

Washington, D.C. office leasing exhibited a moderate slowdown in the first quarter as occupiers became more cautious over omicron concerns. Just over 1.5 million square feet (msf) was transacted this quarter, compared to a whopping 3.0 msf last quarter, and slightly less than the 1.2 msf leased a year ago. While the end of the year typically has a higher volume of lease executions, this was markedly lower than expected and may be only a temporary slowdown in demand. The federal government, D.C.'s largest employer and lessee of office space, has been out of the office since the pandemic started. Their program of a required return-to-office is expected to have a large psychological impact on the private sector when federal employees return officially. Despite this stutter-step in recovery for office demand, many companies are willing to take advantage of favorable market conditions and abundance of quality available options.

### Availability remains high, continued uncertainty makes for tenant-favorable conditions

Availability remains at an historically high level and relatively unchanged over the past year, drifting from 20.4% at the beginning of 2021 to 20.7% in 2022. Sublease inventory hit a high at the end of 2020 with 3.4 msf available and only dipped slightly to 3.1 msf available as of Q1 2022. Not only is availability high but the length of time spaces are staying on the market has increased 14.0% from an average of 24 months reported a year ago to 28 months now. There were 24 leases signed over 10,000 square feet this quarter, notably Foley & Lardner signing a 15-year lease at 3000 K Street NW and ICI (Investment Company Institute) signing a 17-year renewal at 1401 H Street NW. Other leases reflect the uncertainty of the times as the U.S. Department of Labor signed a 36-month renewal at 800 K Street NW, and Buchanan Ingersoll & Rooney PC expanded its footprint on a short-term basis at 1700 K Street NW for twelve months.

### The office market has become increasingly more bifurcated as occupiers continue a flight to quality

Average Class A asking rents are up \$0.34 psf from a year ago. While non-Class A rents are down \$1.27 psf over that same period. Even as tax and operating expenses have increased, building owners have successfully been able to maintain and increase their asking rates in top-tier buildings. As a result, expect the spread between Class A and non-Class A buildings to increase in 2022 as tenant flight to quality continues.

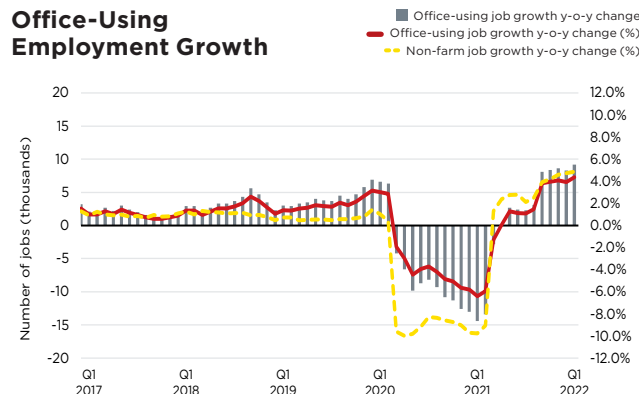
## Outlook

- Occupiers active in the market and in a position to sign a lease in the near-term will benefit from soft market conditions and should expect favorable terms and flexibility
- Tenant-favorable market conditions will persist as availability remains at an historically high level and tenants remain focused on a hybrid workplace strategy
- Subleasing, traditionally an effective method for reducing real estate costs, is proving difficult in a market where leasing volume is down and the compromises of taking as-built space with limited terms don't always compare favorably with new builds supported by increasingly generous concessions

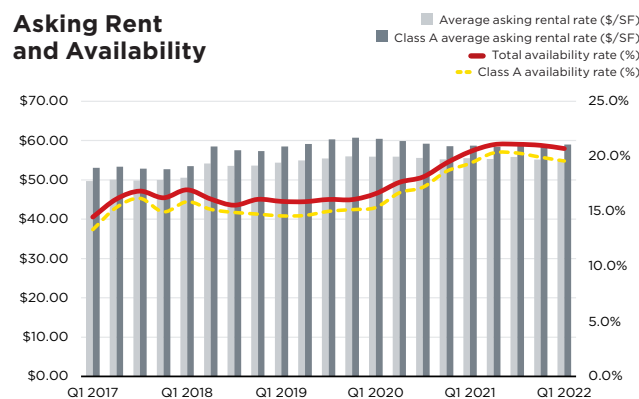
## Key Statistics

	Q1 2021	Q1 2022	y-o-y Change
Inventory	121.6 MSF	123.9 MSF	▲
Availability Rate	20.4%	20.7%	▲
Asking Rental Rate	\$55.53	\$55.33	▼
Class A Asking Rental Rate	\$58.68	\$59.02	▲
Quarterly Leasing Activity	1.2 MSF	1.5 MSF	▲
Available Sublease Space	3.3 MSF	3.1 MSF	▼

## Office-Using Employment Growth



## Asking Rent and Availability



## Leasing Activity



## By the Numbers

6.3%

DC. unemployment rate  
(as of Jan. 2022)

3.8%

Office-using employment growth  
year-over-year (as of Jan. 2022)

2.5 msf

Office space currently  
under construction

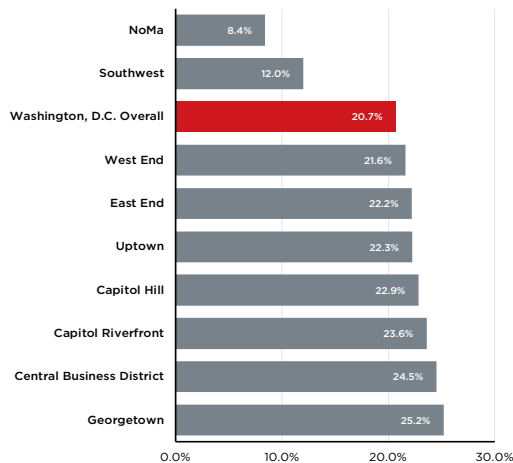
## Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
GSA - Department of Justice	477,473	450 5th Street NW	Extension	East End	Government
Foley & Lardner	95,000	3000 K Street NW	Renewal	Georgetown	Legal Services
ICI (Investment Company Institute)	62,580	1401 H Street NW	Extension	East End	Associations
Milbank	53,860	1850 K Street NW	Renewal	CBD	Legal Services
C-SPAN	49,586	400-444 N Capitol Street NW	Renewal	Capitol Hill	TAMI
Buchanan Ingersoll & Rooney PC	43,003	1700 K Street NW	Expansion	CBD	Legal Services
ACDI/VOCA	37,871	50 F Street NW	Renewal	Capitol Hill	Non-profit
Barnes & Thornburg	35,073	555 12th Street NW	New Location	East End	Legal Services
Certified Financial Planner Board of Standards	31,606	1425 K Street NW	Expansion	East End	Professional Services
United States Department of Labor	30,951	800 K Street NW	Renewal	East End	Government

Source: Savills Research

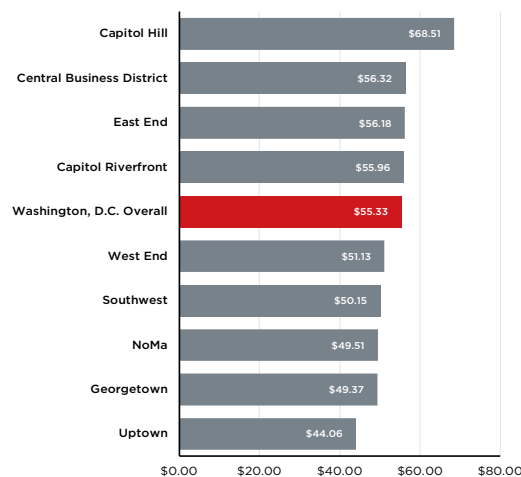
## Availability Rate Comparison (%)

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 per square foot. 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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