

# Washington, D.C.

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## Office space demand slowdown continues as occupiers tread carefully

Washington D.C. office space demand remains near historic lows with quarterly leasing activity totaling just under 1.0 million square feet (msf), compared to 1.5 msf reported a year ago. Despite the lower level in demand, some companies have been willing to take advantage of favorable market conditions and the abundance of higher-end available options. Tenant flight to quality continues to characterize the office market with trophy buildings reporting lower availability rates and higher rents, while non-trophy buildings continue to lag in performance, especially as the federal government has been slow to return to office. Activity for the quarter was dominated by legal services. Notably, Pillsbury Winthrop Shaw Pittman signed an extension at 1200 17th Street NW for 89,000 square feet (sf) which was the largest lease signed this quarter.

### Availability is at record high amidst continued economic uncertainty

Availability remains historically high, increasing 4.8 percent from 20.7% in Q1 2022 to 21.7% in Q1 2023. Sublease availability also remains elevated at 3.4 msf, up from 3.1 msf reported a year ago. It should be noted that the availability rate in trophy buildings is now below 18.0% and could decrease throughout the year as occupier demand for high-end buildings with numerous amenities has become more appealing for those companies looking to upgrade their existing real estate.

### Office market has become more bifurcated between trophy and non-trophy buildings as tenant flight to quality continues

While overall asking rents have decreased by 0.9% over the past year, trophy building asking rents are up 2.3% from a year ago. Even as building operating expenses and taxes have increased, the best office properties in the most desirable locations with the most on-site amenities have continued to see the most occupier interest. With many occupiers seeing 2023 as the year they finally get their employees back to the office, expect the top end of the leasing market to outperform the rest of the market amidst increased economic uncertainty.

## Key Statistics

	Q1 2022	Q1 2023	Y-0-Y
Inventory	124.0 msf	122.1 msf	-1.9 msf
Availability Rate	20.7%	21.7%	+100 bps
Asking Rental Rate	\$55.33	\$54.82	-0.9%
Class A Asking Rental Rate	\$59.02	\$58.07	-1.6%
Quarterly Leasing Activity	1.5 msf	0.9 msf	-0.6 msf
Available Sublease Space	3.1 msf	3.4 msf	+0.3 msf

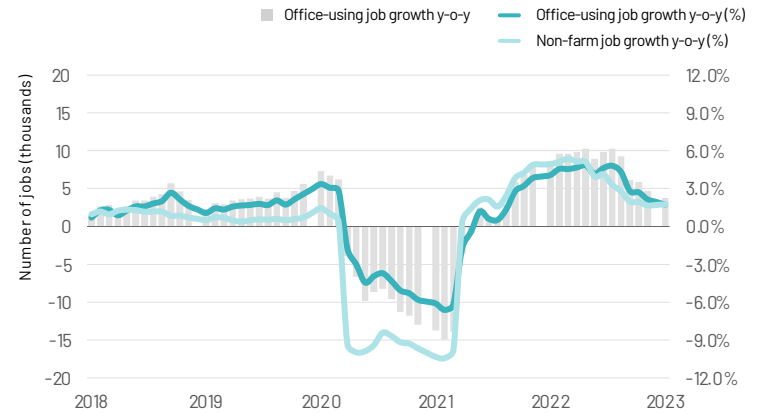
## Outlook

**01** Due to continued economic uncertainty, expect some tenants without near-term lease expirations to take a “wait-and-see” approach before transacting

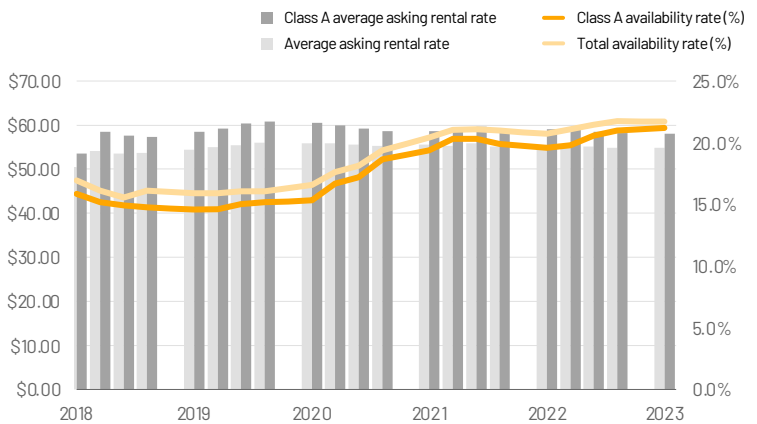
**02** Expect more companies to alter their office footprint going forward; return-to-office policy and workforce planning will continue to drive this decision-making

**03** As some owners raise rents for limited competitive best-in-class product, others who own obsolete buildings may consider office to residential conversions

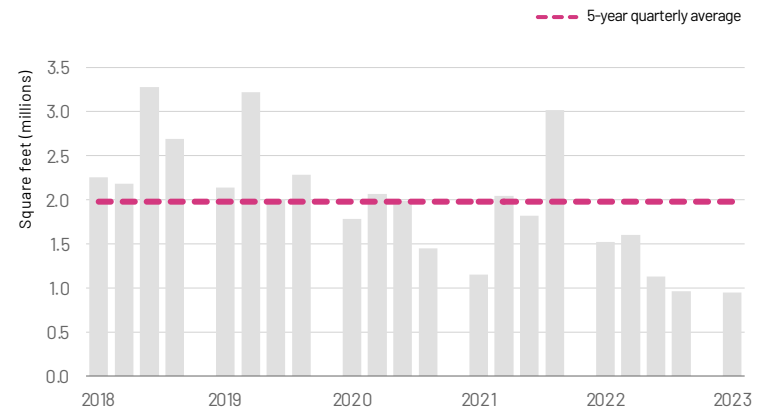
## Office-using Employment Growth



## Asking Rent and Availability



## Leasing Activity



# Top Transactions

\*Trophy Building

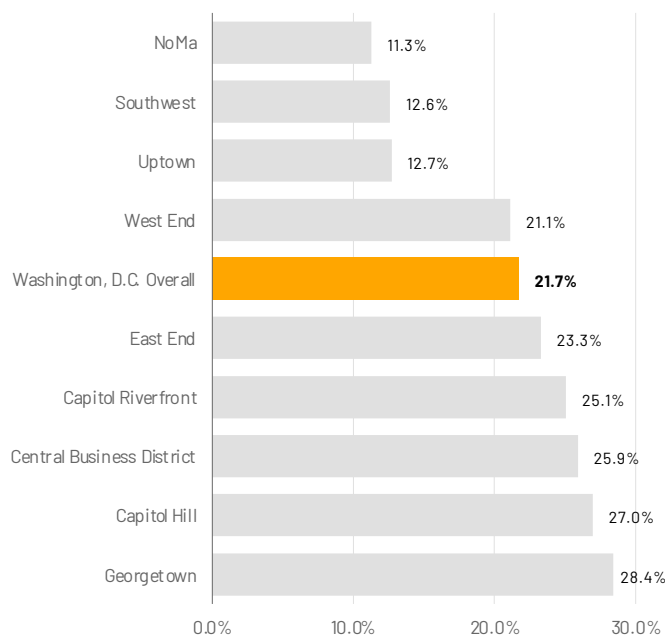
\*\*Sublease

Source: Savills Research

TENANT	INDUSTRY	SUBMARKET	ADDRESS	SIZE (SF)	TRANSACTION TYPE
Pillsbury Winthrop Shaw Pittman	Legal Services	CBD	1200 17th Street NW	89,000	Extension
Atlantic Council of United States	Associations and Non-profit Organizations	East End	1400 L Street NW	79,663	New
Cadwalader, Wickersham & Taft	Legal Services	CBD	1919 Pennsylvania Avenue NW	42,572	New
World Bank	Financial Services and Insurance	CBD	1899 Pennsylvania Avenue NW	37,810	Renewal
Regus	Coworking and Executive Suites Companies	East End	600 Massachusetts Avenue NW	30,247	New
Dow Jones & Company	TAMI	CBD	1025 Connecticut Avenue NW	29,561	Renewal
Orrick, Herrington & Sutcliffe, LLP	Legal Services	CBD	2100 Pennsylvania Avenue NW	24,478	Expansion
Powers Pyles Sutter & Verville P.C.	Legal Services	CBD	1250 Connecticut Avenue NW	23,446	New
Bates White	Financial Services and Insurance	CBD	2001 K Street NW	20,765	Expansion
Union Pacific	Transportation	East End	1001 Pennsylvania Avenue NW	20,735	New

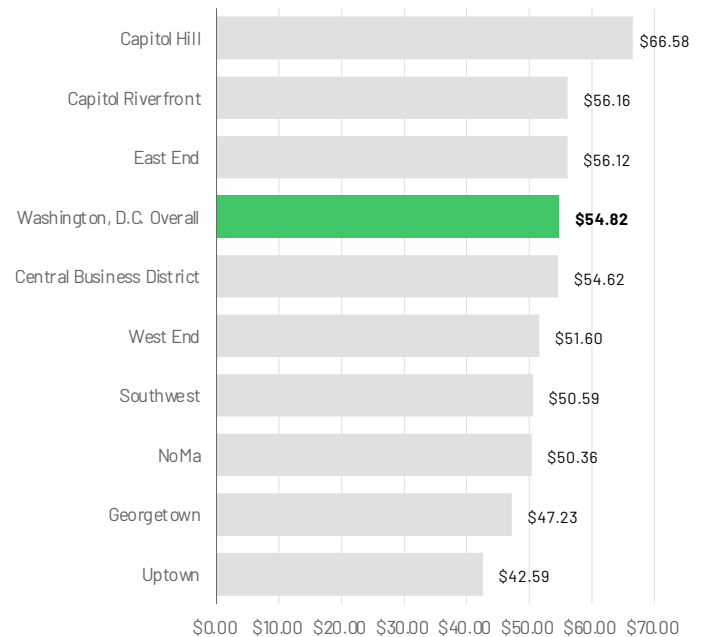
## Availability Rate Comparison (%)

WASHINGTON, D.C SUBMARKETS



## Rental Rate Comparison (\$/sf)

WASHINGTON, D.C SUBMARKETS



## Washington, D.C. Q1 2023 - Office

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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.

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