MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Washington, D.C.

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Washington D.C. saw slowing office space demand in the second quarter

At mid-year 2022, the Washington D.C. office market is seeing a slowdown in leasing activity. While this could be due to a seasonal drop in deal volume as deal activity has historically spiked in the second half of the year, macroeconomic concerns such as high inflation and slowing growth, as well as many occupiers utilizing hybrid workplace strategies have acted as headwinds despite strong underlying employment fundamentals. Just over 1.3 million square feet (msf) of leasing was transacted in the second quarter, down from 1.5 msf reported last quarter, as well as down from 2.0 msf reported a year ago. Sublease leasing activity saw a greater drop in demand as only 30,000 square feet (sf) were leased in the second quarter, down from 155,000 sf in the first quarter, and down from 200,000 sf a year ago. Once again, the federal government was the driving factor in leasing activity as the Department of Justice (DOJ) leased 331,000 sf at 555 4th Street NW. This deal alone comprised nearly 26.0% of total leasing activity in what was otherwise a slow quarter. With office availability remaining at a record high, Washington D.C. will remain a tenant-favorable office market in the near-term.

Office availability remains historically high and is expected to see little change in coming quarters

The total availability rate increased to 21.1% in the second quarter 2022. This is up 40 basis points (bps) from 20.7% reported last quarter and is unchanged from a year ago. Sublease inventory also remain historically high and is now at 3.1 msf as many occupiers have put their spaces on the market since the onset of the pandemic. Expect availability levels to remain elevated through the second half of the year and into next year.

Average asking rents are up year over year, but so are concessions

Overall average asking rents ended the quarter at $55.49 per square foot (psf), up slightly from $55.31 psf reported a year ago. Class A asking rents are similarly up year over year, now averaging $58.94 psf. While asking rents may appear healthy considering the market's high availability, hefty concession packages indicate that landlords are aggressively chasing occupancy. With long-term Class A new leases now receiving an average of $147.00 psf in tenant improvement allowances and 22 months of rent abatement totaling $267.00 psf in total concessions value, expect tenant-favorable market conditions to remain for the foreseeable future.

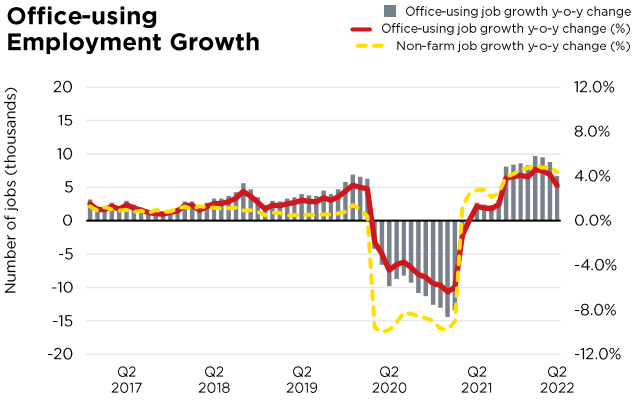
Outlook

- The full impact of a mainstream hybrid remote work policy is still evolving, but flexibility regarding both lease terms and build-out, will be at the forefront of occupiers' minds as they evaluate their workplaces
- Record-level availability will cause landlords to continue offering elevated concessions packages to compete for tenants
- Tenant-favorable market conditions will persist as availability remains at an historically high level and tenants remain focused on a hybrid workplace strategy

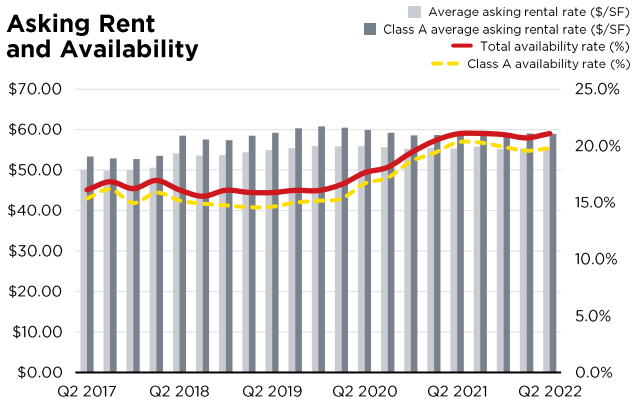
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	122.1 MSF	122.6 MSF	▲
Availability Rate	21.1%	21.1%	◀▶
Asking Rental Rate	$55.31	$55.49	▲
Class A Asking Rental Rate	$58.45	$58.94	▲
Quarterly Leasing Activity	2.0 MSF	1.3 MSF	▼
Available Sublease Space	3.2 MSF	3.1 MSF	▼

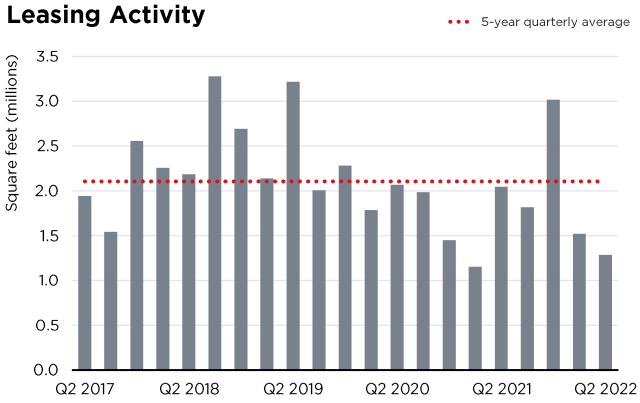
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

5.7%
D.C. unemployment rate (as of May 2022)

3.1%
Office-using employment growth year over year (as of May 2022)

2.6 msf
Office space currently under construction

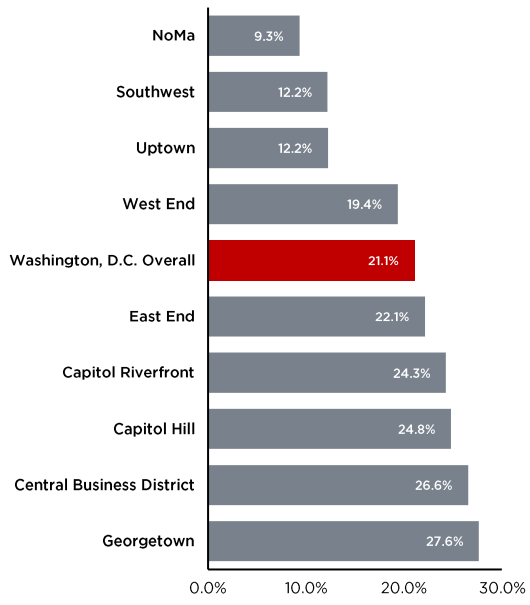
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
GSA - Department of Justice	331,000	555 4th Street NW	New Location	East End	Government
Bank of America	117,874	1800 K Street NW	Expansion	CBD	Financial Services & Insurance
Blue Cross Blue Shield Association	63,782	750 9th Street NW	Relocation	East End	Financial Services & Insurance
FHI 360	59,514	2101 L Street NW	Relocation	CBD	Associations and Non-Profits
District of Columbia Housing Authority	52,380	300 7th Street SW	Relocation	Southwest	Government
GMMB	46,340	3050 K Street NW	Renewal	Georgetown	TAMI
Cushman & Wakefield	38,006	2101 L Street NW	Renewal	CBD	Real Estate
Special Olympics	35,557	2600 Virginia Ave NW	Relocation	West End	Associations and Non-Profits
Milken Center for Advancing the American Dream	35,279	555 13th Street NW	New Location	East End	Associations and Non-Profits
Institute of International Education	32,726	1350 I Street NW	Relocation	East End	Associations and Non-Profits

Source: Savills Research

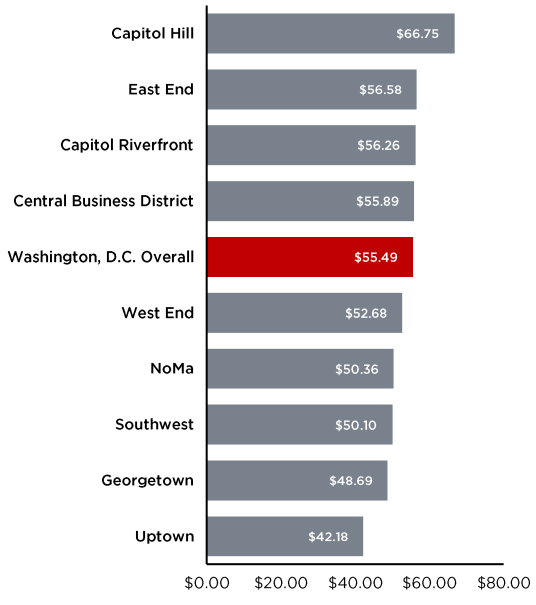
Availability Rate Comparison (%)

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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