MARKET IN MINUTES
Savills Research

Q3 2022 - Office

Washington, D.C.

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Washington D.C. office market reports slow leasing activity as availability rate remains near an all-time high

The Washington D.C. office market continued to see a slowdown in leasing activity with just over 1.0 million square feet (msf) executed in the third quarter, down from 1.6 msf reported last quarter and 1.8 msf reported a year ago. While this could be attributed to a typical seasonal drop in deal volume, macroeconomic concerns such as a potential recession, geopolitical concerns, as well as the increased use of hybrid workplace strategies have all combined to create uncertainty despite strong underlying employment fundamentals. Sublease leasing activity saw a greater drop in demand as only 42,000 sf was leased in the third quarter, down from 99,000 sf last quarter. The federal government remained active as U.S. Customs and Border Protection leased 99,515 sf at 90 K Street Northeast. With office availability remaining at a record high and leasing activity remaining sluggish, Washington D.C. will remain a tenant-favorable office market in the near-term.

Fundamental shift in space use has caused availability to rise, with no change in the foreseeable future

The total availability rate increased to 21.5% in the third quarter, up 40 basis points (bps) from 21.1% reported last quarter, a number that had held steady from a year ago. Sublease availability also remains historically high and is now at 3.5 msf, as occupiers reevaluate their existing space needs and seek to dispose of excess space. Expect availability levels to continue to be higher through the remainder of the year and into next year despite the recent post-Labor Day increase in office occupancy levels to 44.7% from a pandemic-low of 12.9% according to Kastle Systems. Finally, with office market fundamentals remaining soft, expect more distress from some owners as loan defaults and relinquishing of assets could increase going forward.

Rents are down year over year while concessions continue to increase as the market remains highly tenant-favorable

Overall average asking rents ended the quarter at $55.18 per square foot (psf), down from $55.94 psf reported a year ago. Class A average asking rents are similarly down year over year, now averaging $58.42 psf. While asking rents have not changed dramatically considering the market's high availability rate, increasingly hefty concession packages are indicative of landlords being forced to do more to chase potential tenants and keep existing ones. Long-term Class A new leases are now receiving an average of $150.00 psf in tenant improvement allowances and 24 months of rent abatement totaling $282.00 psf in concessions.

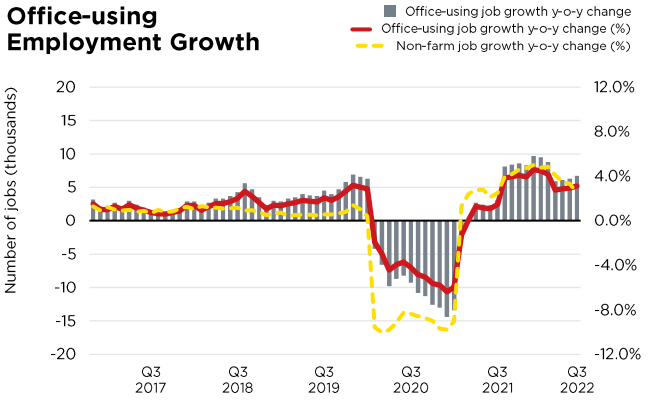
Outlook

- Available sublease space continues to increase as tenants remain focused on a hybrid workplace strategy and reduce their footprint as a result
- Concessions such as rental abatement and tenant improvement allowances remain at an all-time high as landlords aggressively compete for occupancy
- The long-term effect of work-from-home remains largely unknown as workers slowly begin to get back into the office, however, hybrid workplace strategies and employee flexibility appear to be sticking

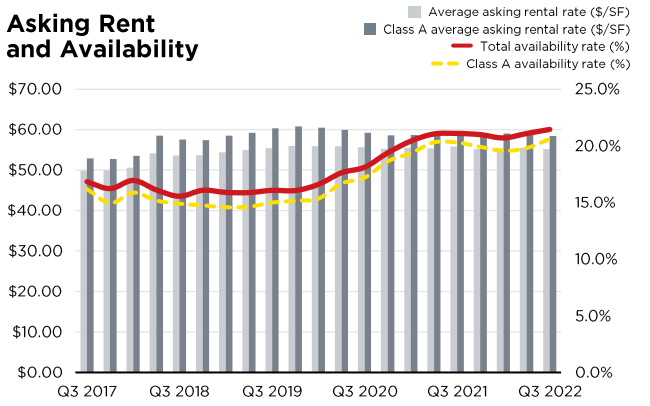
Key Statistics

	Q3 2021	Q3 2022	y-o-y Change
Inventory	122.6 MSF	122.6 MSF	◀▶
Availability Rate	21.1%	21.5%	▲
Asking Rental Rate	$55.82	$55.18	▼
Class A Asking Rental Rate	$59.67	$58.42	▼
Quarterly Leasing Activity	1.8 MSF	1.1 MSF	▼
Available Sublease Space	3.0 MSF	3.4 MSF	▲

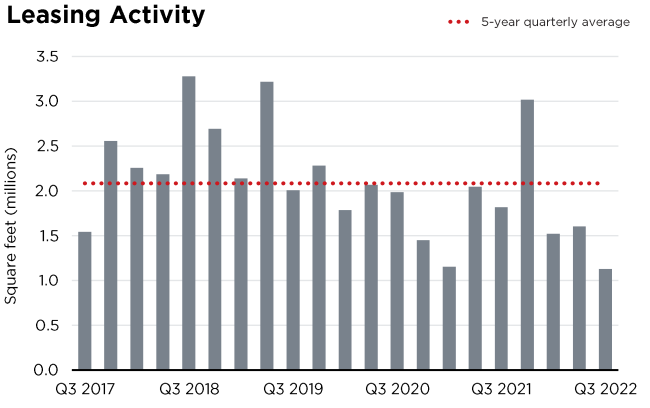
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

5.1%
D.C. unemployment rate (as of Aug. 2022)

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

0.7 msf
Office space currently under construction

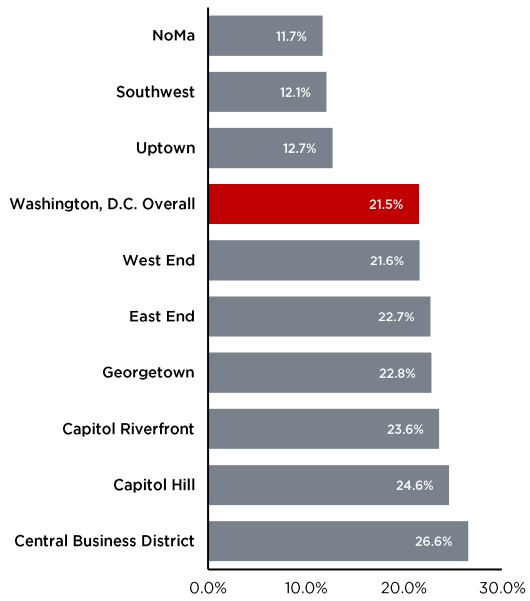
Top Transactions

Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
U.S. Customs and Border Protection	99,515	90 K Street NE	Renewal	NoMa	Government
FINRA - Financial Industry Regulatory Authority	67,754	1700 K Street NW	Relocation	CBD	Financial Services and Insurance
Van Ness Feldman	44,649	2000 Pennsylvania Avenue NW	New	CBD	Legal Services
Mortgage Bankers Association	34,650	1919 M Street NW	Renewal	CBD	Financial Services and Insurance
AT&T Corporation	33,272	1120 20th Street NW	Renewal and Expansion	CBD	TAMI
Kiewit Corporation	31,455	470-490 L'Enfant Plaza SW	New	Southwest	Construction, Engineering and Architecture
The American Center for Physics	30,461	555 12th Street NW	New	East End	Associations and Non-profits
Kilpatrick Townsend	27,579	701 Pennsylvania Avenue NW	Relocation	East End	Legal Services
Carr Workplaces	27,500	300 New Jersey Avenue NW	New	Capitol Hill	Coworking
Tuckernuck	24,980	1250 24th Street NW	Relocation	West End	Retail

Source: Savills Research

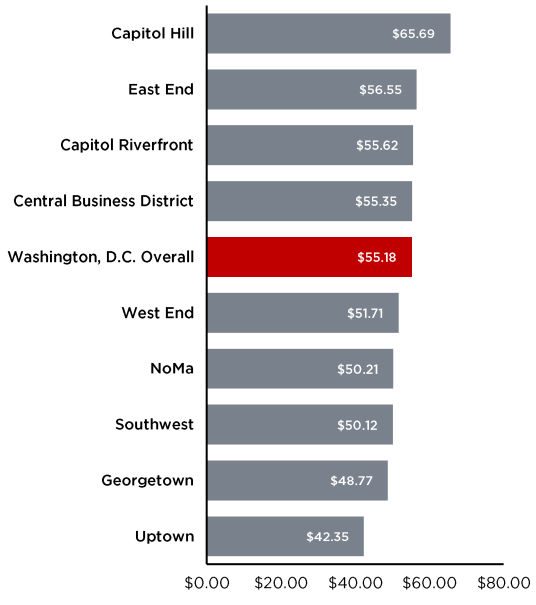
Availability Rate Comparison (%)

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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