

Spring 2024

Government Contractor Trends

Record funding combined with elevated inflation, surging interest rates, and escalating compliance demands provide opportunities and challenges for occupiers.

Cresa Research



Government Contracting Trends

Federal contract obligations in the Washington, DC Metro reached a record of nearly \$200 billion in Fiscal Year 2023. Government awards continue to be shaped by the pandemic, including inflation and supply chain issues. With a Federal election approaching, contractors are preparing for potential changes ahead. The importance of government contractors having a significant presence in the Washington, DC Metro is increasingly essential, as evidenced by both the Boeing Co. and Raytheon announcing in the past year that they were moving their respective HQs to Arlington, Virginia.

Government Contractor Trends

Artificial Intelligence: Prioritizing AI has become a significant factor in government contract allocations. There are significant opportunities to increase efficiencies in bureaucratic organizations such as the Social Security Administration and Department of Education.

Cybersecurity: With increased technology advances, government contractors are expected to increase their security protocols and protection against bad actors.

Focus on Small Businesses: The current administration has placed increased importance on providing more opportunities for small business contractors.

2024 National Defense Authorization Act (NDAA): The fiscal year 2024 NDAA was signed into law in December 2023. The law includes provisions to expedite the US Department of Defense's procurement of goods and services.

DC Metro Highlights

Government Contract
Obligations Increase
Between FY 2022 & 2023

7.3%

CPI-Inflation
Annual Increase

3.6%

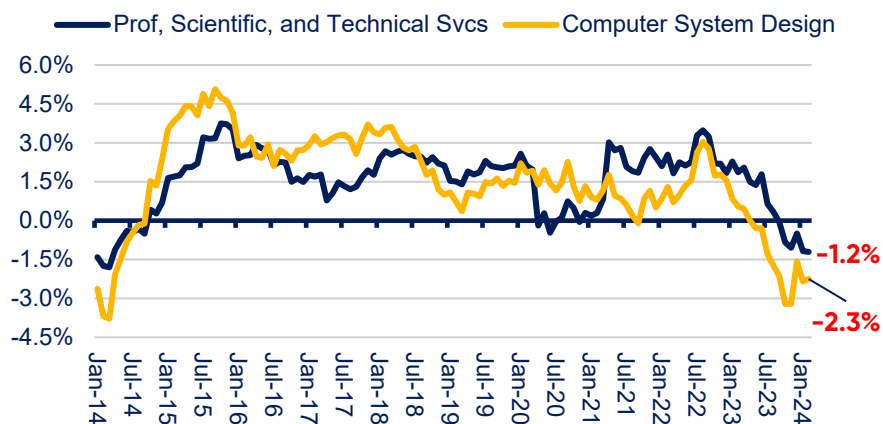
Unemployment Rate

3.1%

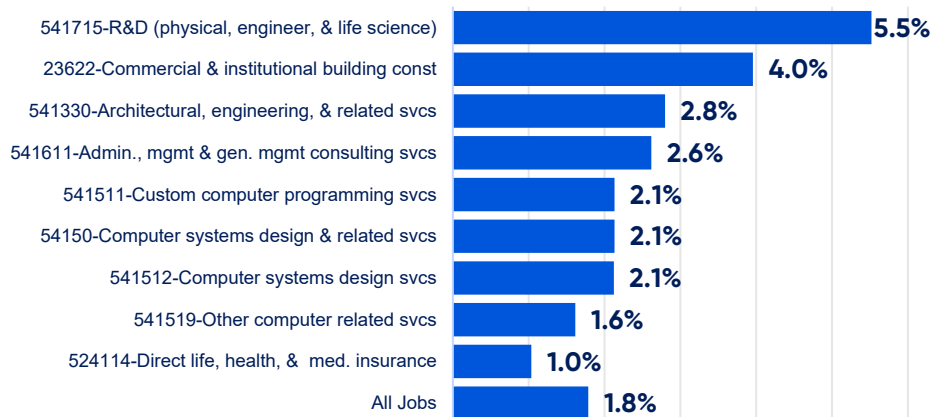
Sources: USASpending.gov
Bureau of Labor Statistics

Employment

Typical Government Contractor Jobs: Washington, DC Metro Y-o-Y Change



Government Contractor Job Types: National NAICS Code and Annual Job Growth Rate



Government contractor jobs vary depending on the need, but **professional, scientific and technical services** and **computer system design** are particularly relevant due to the nature of many defense and computer science related requirements.

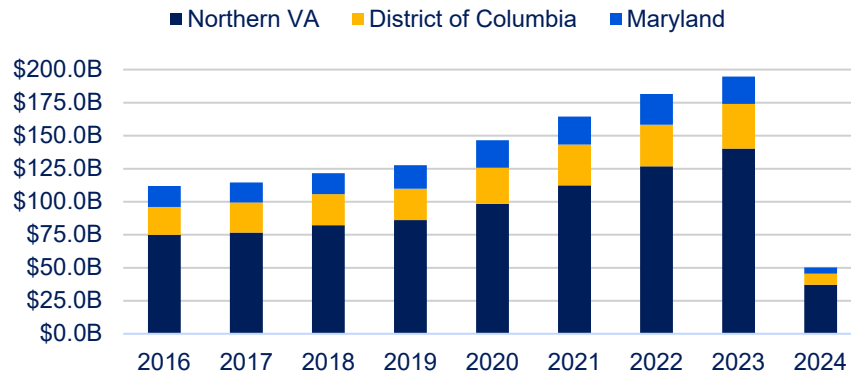
After years of sustained growth, both these sectors started decreasing in mid-2023 in the Washington, DC metro area.

Other relevant government contractor job titles include engineering and management consulting. Many of these job types have seen outsized growth compared to the overall job market. As unemployment remains near historic lows (particularly for college-educated workers), competition for workers remains a priority for government contractors.

Sources: Bureau of Labor Services, Cresa
Data includes the Washington, DC metro and the United States.

Government Contractor Spending

Government Contractor Spending within Washington, DC Metro Contract Amount Obligated by Fiscal Year



Large Government Contractors Washington, DC Metro Job Openings By Employer

Company	Sector	Job Openings
Booz Allen Hamilton	Defense	1,073
Deloitte, LLP	Professional Services	921
General Dynamics	Defense	830
Leidos, Inc.	Information, Technology, & Engineering	628
CACI International, Inc.	Defense	610
SAIC	Information, Technology, & Engineering	468
ADS, Inc.	Logistics	446
Mantech International Corp.	Defense	420
Amentum	Defense	361
Accenture Federal Services	Professional Services	354
Mitre Corp.	Management	296
BAE Systems, Inc.	Defense	283
ICF International, Inc.	Information, Technology, & Engineering	209

Government contractor obligations within the Washington, DC metro have steadily increased. The metro increased contract obligations by 7.3 percent between fiscal year 2022 and 2023, outpacing the local inflation rate of 3.6 percent over the same period. Over the past year, Northern Virginia contracts increased 10.6 percent, while Maryland contracts decreased by 10.8 percent. Obligations in the district increased 7.1 percent.

Job openings in the Washington, DC metro for many of the largest government contractors remain elevated, with Booz Allen Hamilton, Deloitte, and General Dynamics leading the way. Many of these roles are highly technical and require additional clearance levels, which makes the hiring process take longer than typical roles.

Sources: Bureau of Labor Services, Cresa, Indeed, and USASpending.gov

Office Market Activity

While overall office leasing activity has slowed both nationally and in the Washington DC metro, meaningful transactions are still taking place. CACI, a multinational professional services company, recently signed a 42,350 square foot deal at 11400 Commerce Park in Reston. Defense contractor, ManTech, renewed nearly 120,000 square feet at 2251 Corporate Park in Herndon, Virginia. Mitre has signed lease deals in multiple locations, including over 40,000 square feet at 370 L'Enfant Plaza SW in Washington, DC.



Recent Government Contractor Leasing Activity

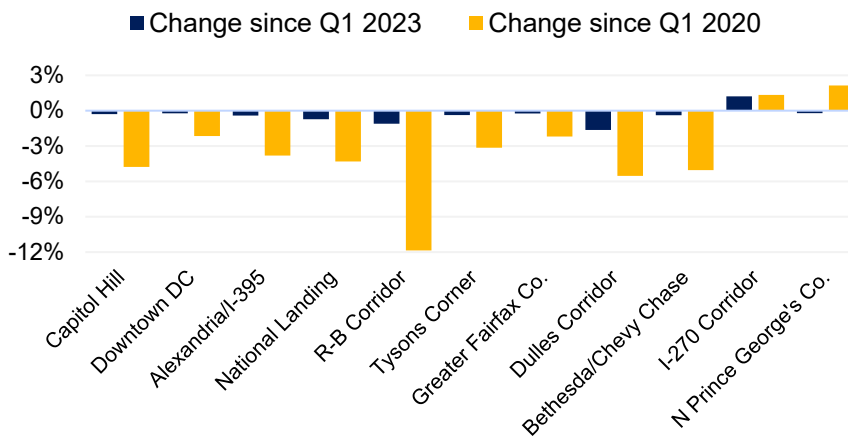
Tenant Name	Address	City	State	SF Occupied	Floor	Space Use	Lease Type	Start Date	Submarket
CACI	11400 Commerce Park Dr	Reston	VA	42,350	2-3	Office	New	Jun 2024	Reston
Accenture	699 14th St NW	Washington, DC		40,514	9-11	Office	New	Jan 2024	East End
Dell	440 1st St NW	Washington, DC		13,870	8	Office	New	Aug 2023	Capitol Hill
Raytheon	23031 Ladbrook Dr	Sterling	VA	43,804	1	Flex	New	Jul 2023	Rt 28/Dulles N
Mitre	370 L'Enfant Plz SW	Washington, DC		40,732	6	Office	New	Apr 2023	Southwest
Mitre	1335 East-West Hwy	Silver Spring	MD	14,819	2	Office	New	Apr 2023	Silver Spring
ManTech	2251 Corporate Park Dr	Herndon	VA	118,678	1, 3-6	Office	Renewal	Mar 2023	Herndon
IBM (Octo)	10780-10790 Parkridge Blvd	Reston	VA	28,738	4	Office	New	Mar 2023	Reston
HII	2451 Crystal Dr	Arlington	VA	36,809	11	Office	New	Mar 2023	Crystal City
ManTech	1000 Corporate Dr	Stafford	VA	37,121	1, 4	Office	New	Mar 2023	Stafford County

Source: CoStar, Cresa

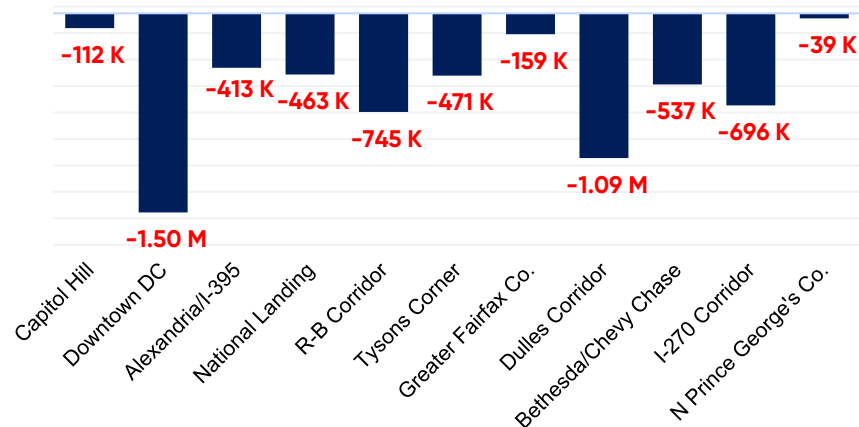


Office Market Stats

Asking Market Rent (12-Month Change): Class A & B Office Space Washington, DC Metro



Net Absorption Over Past 12-Months: Class A & B Office Space Washington, DC Metro



The overall Washington, DC metro office market has struggled to find balance since the start of the pandemic and the surge in remote work. With governmental agencies leading the way with continued remote work policies, many government contractors have followed suit.

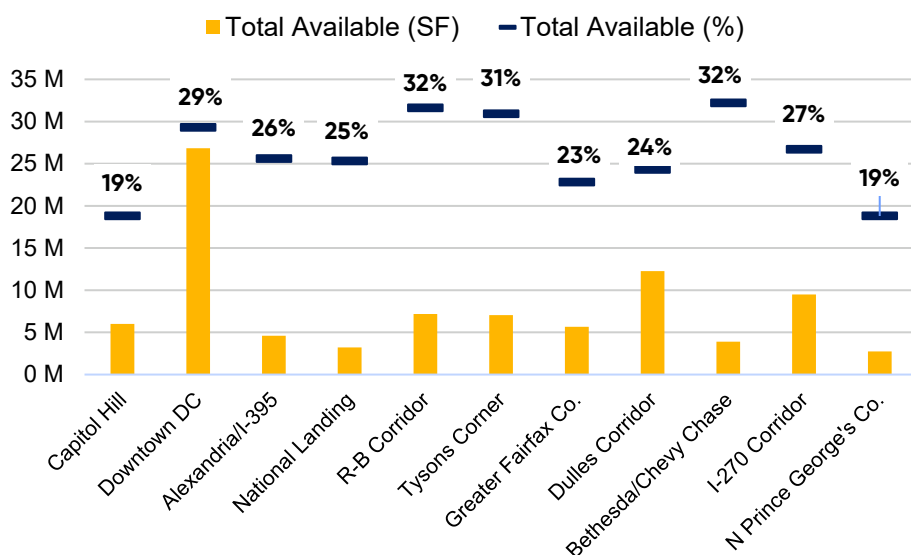
As a result, office fundamentals have weakened, with overall asking rents falling even as concessions have increased. Only the I-270 Corridor and N Prince George's County submarkets have seen positive growth in the past year.

With soft market conditions, net absorption has been down across all submarkets in the metro, with the Downtown DC experiencing 1.5 million square feet of negative net absorption.



Office Market Stats

Office Availabilities: Class A & B Space Washington, DC Metro by Submarket



Office availabilities have significantly increased in most Washington, DC metro submarkets. More than 27 million square feet of office space are available in Downtown DC. Availabilities, which include the amount of space that is being marketed as available for lease, regardless of whether the space is vacant, occupied, available for sublease or available at a future date, exceeded 20 percent in all but two submarkets in the metro. The Bethesda and R-B Corridor submarkets both increased over 30 percent to end the first quarter of 2024.

Source: CoStar & Cresa; Q1 2024

Conclusions

The Washington, DC office outlook has grown bleaker each quarter, with vacancy and availability rates at two-decade highs. With leasing activity down approximately 30 percent, compared to pre-pandemic levels, landlords have struggled to hold asking rates. Additionally, the amount of sublease space entering the market has created a competitive market for landlords as they must negotiate sublease rates that may be significantly below asking direct rates. The bright side is there is very little new supply under construction, which may stabilize the demand over the long-term. All this bad news for landlords and investors provides generational leverage for tenants with new requirements or existing tenants looking to renegotiate their terms.



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