

Key Performance Indicators



Tenant's Perspective

DC's office market is expected to remain heavily tenant-favorable through the end of the year and well into the next. Pandemic-induced economic uncertainty continues to increase landlord competition as demand has slowed and availabilities increase. The inventory of sublease space is increasing putting additional pressure on landlords to compete with heavily discounted subleases.

The trend of lower asking rates and generous concession packages (free rent >1.5 months/year of term, and TIAs over \$130/SF) will continue throughout the foreseeable future.

Market Overview

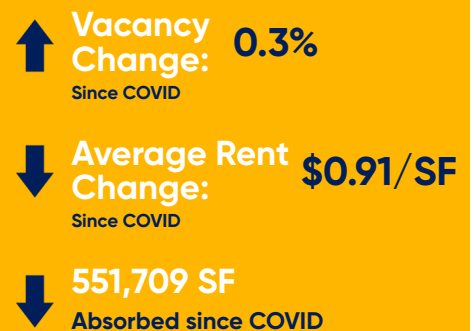
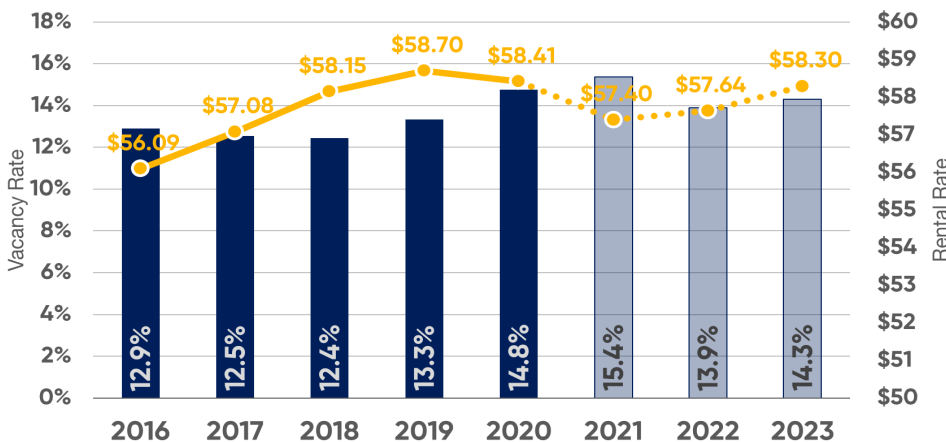
The District of Columbia's office market faced a significant shock in the third quarter of 2020. COVID-19 continued to affect a significant portion of the region's business activity, as many firms consider structural changes to future workplace strategy. A third-quarter renewal leasing trend has emerged in the Washington MSA Region, DC being no exception as 63.2% of all transactions were renewals. Pandemic-induced economic uncertainty has continued to cause leasing activity to decrease, posing problems for landlords as well as highlighting the already existing oversupply of office inventory. Overall asking rents in the District of Columbia continued to fall to \$57.09/SF, dropping below previous quarters' lowest levels, which recorded at a low in 2017. Occupancy losses were measured at -520,977 SF in Q3, bringing year-to-date net growth to -608,048 SF. If occupancy losses continue through the remainder of the year as expected, year-end absorption will end at a negative, the first time in more than ten years.

Washington Region Office Occupancy: 24.0%

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

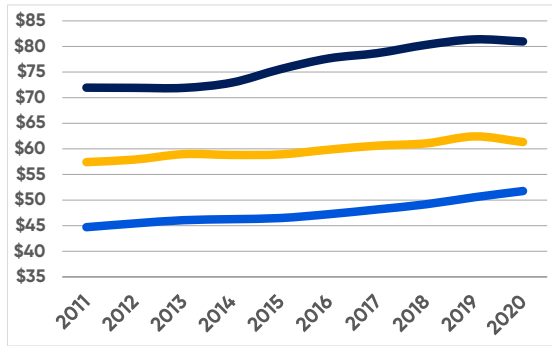
DC's labor pool contracted by 53,200 jobs over the last 12 months; however, most losses were non-office-using jobs.



Q3 2020 Market Report

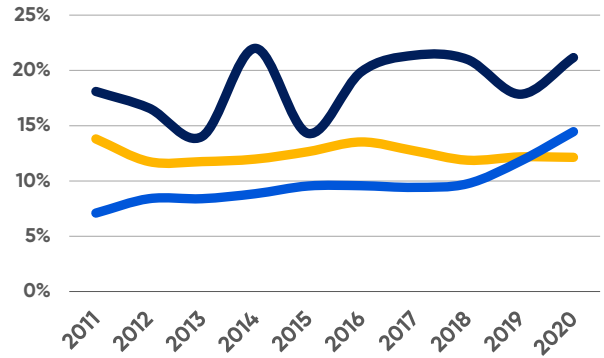
Asking Rents

■ Trophy ■ Class A ■ Class B



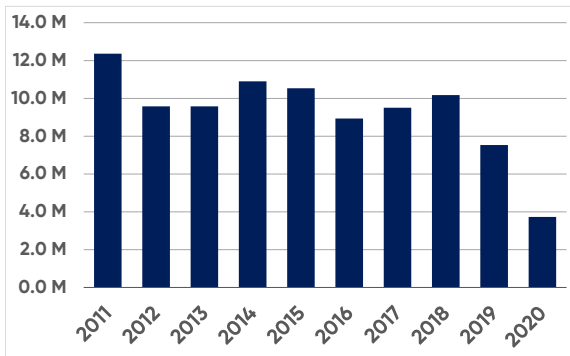
Average Vacancy Rate

■ Trophy ■ Class A ■ Class B



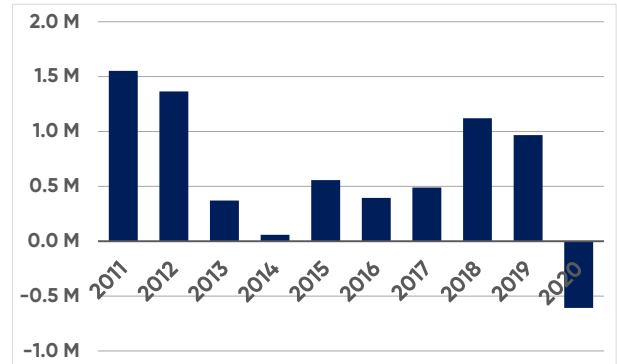
Leasing Activity

■ Square Feet



Net Absorption

■ Square Feet



COVID Slows Leasing, Amplifies Subleases

The effects on District of Columbia office market fundamentals due to COVID-19 have continued to accelerate during the third quarter of 2020. Leasing activity has continued to slow, with total leased square feet dropping 34% from year-ago levels. Leasing activity and demand fell across all office classes, a trend that is expected to continue through the end of 2020.

Similar to how the pandemic has negatively affected leasing activity, it has also significantly impacted the market's sublease availability. Following past economic shocks, sublease listings recorded varying increases as firms reacted to the market uncertainty by listing unused and unnecessary space. In the third quarter, total available sublease in the District of Columbia reached an all-time high, increasing 24.2% since the onset of COVID. This growth is on-par with the post-2001 and 2008 market crashes. Following those shocks, availability expansion continued for two years.

Q3 2020 Market Report

Q3 Top Leases

Tenant	Submarket	Address	Size	Type
Federal Reserve	CBD	1825 & 1875 Eye St, 1850 K St NW	319,000	Renewal
Jones Day	Capitol Hill	51 Louisiana Ave NW	234,900	Renewal
Internal Revenue Service	NoMA	77 K St NE	166,770	Renewal
Secret Service	CBD	1111 18th St NW	74,234	Renewal
Microsoft	East End	901 K St NW	57,636	Renewal

Rent Contractions

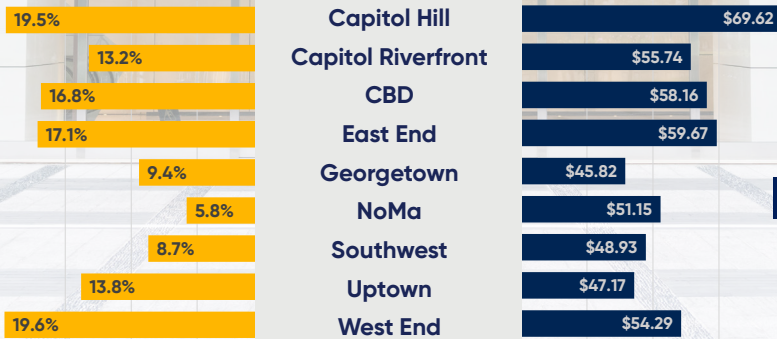
Recessionary Connection

Following past economic shocks, certain degrees of rent contractions are all but inevitable as landlords are forced to react competitively to market uncertainty.

Current Contractions

The region's office market was largely oversupplied pre-COVID. Further reductions in tenant demand and tenant vacancies have put some landlords in difficult positions forcing lower asking rates to compete. Rent contraction is expected to continue, though the larger focus in Q3 has been competitive concession packages offered by landlords.

Submarket Comparison



Vacancy Rate

Asking Rate

Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q2	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
CBD	210	36,658,364	1,074,661	8,967,163	6,171,165	16.8% ▲	(220,105)	(632,644)	\$67.63	\$53.37	\$58.16 ▼	591,153	921,129	441,646
East End	219	47,965,260	1,410,974	11,196,548	8,202,059	17.1% ▲	(136,877)	(347,071)	\$63.18	\$52.24	\$59.67 ▼	202,791	177,729	4,041
Downtown Core	429	84,623,624	2,485,635	20,163,711	14,373,224	17.0% ▲	(356,982)	(979,715)	\$64.15	\$52.94	\$59.08 ▼	793,944	1,098,858	445,687
Capitol Hill	38	5,637,058	109,454	1,678,541	1,098,078	19.5% ▲	14,735	176,143	\$72.37	\$52.43	\$69.62 ▲	226,841	-	-
Capitol Riverfront	12	2,842,064	84,622	845,862	373,814	13.2% ▲	(18,046)	103,070	\$55.74	n/a	\$55.74 ▼	557,948	124,928	124,928
Georgetown	42	3,270,469	50,989	523,069	305,941	9.4% ▼	(17,704)	(36,056)	\$53.59	\$42.93	\$45.82 ▼	-	-	-
NoMa	36	10,534,821	30,378	1,205,238	612,518	5.8% ▼	2,313	510,765	\$51.63	\$44.91	\$51.15 ▲	38,191	545,823	545,823
Southwest	34	11,667,674	30,555	1,596,818	1,016,611	8.7% ▼	(23,673)	(146,817)	\$50.86	\$46.70	\$48.93 ▲	866,203	-	-
Uptown	165	10,595,786	259,324	2,241,829	1,458,241	13.8% ▼	(41,577)	(91,609)	\$51.42	\$42.19	\$47.17 ▼	281,655	63,613	47,084
West End	20	3,274,791	116,189	672,248	643,229	19.6% ▲	(80,043)	(143,829)	\$55.15	\$53.78	\$54.29 ▲	-	-	-
District of Columbia	755	130,073,048	3,116,157	28,479,686	19,881,656	15.3% ▲	(520,977)	(608,048)	\$60.73	\$51.51	\$57.09 ▼	2,764,782	1,833,222	1,163,522