District of Columbia

Q4 2020 Market Report

Key Performance Indicators

Vacancy
15.7%

Average Rent
$57.81/SF

Net Absorption
-891,265 SF

Tenant's Perspective

DC's office market continues to remain tenant-favorable, a trend expected to continue well into the upcoming year. Overall market activity remained considerably below average, with leasing activity down 55% from year-ago levels. Considering limited market movement and low tenant occupancy levels, several landlords have been looking to compete through repositions and renovations, adding heightened amenities such as fitness centers, rooftop spaces, and conference facilities.

Market Overview

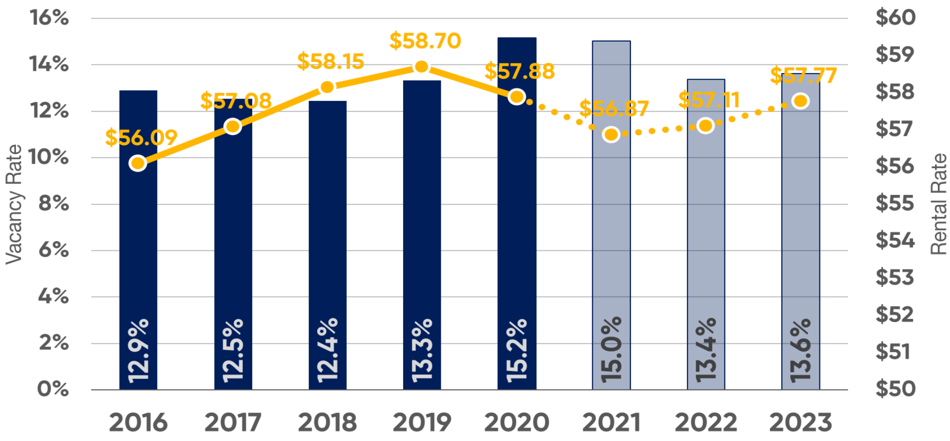
The District of Columbia's office market fundamentals continued to face significant shocks in the fourth quarter of 2020. Pandemic-induced economic uncertainty continues to influence market indicators and highlights precarious industries. Asking rates in the District of Columbia continued on a downward trend to $57.24/SF, averaging negative yearly growth for the first time since 2013. Fourth-quarter vacancy, another market fundamental affected by COVID uncertainty, ended at 15.7%, a 180 basis points (bps) increase from year-ago levels. As expected, slow leasing activity and limited tenant demand continued to force downward pressure on the market, marking the first year-end negative absorption in more than ten years. Though trepidation and uncertainty encompass the market, the beginning phases of vaccine distribution have led to increased public optimism. This optimism is expected to grow as vaccines are projected to become widely distributed in the upcoming year, bringing momentum and increased activity to the market.

Washington Region Office Occupancy: 19.6%

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

DC's labor pool contracted by 50,600 jobs over the last 12 months; however, most losses were non-office-using jobs.



Vacancy Change: 0.7%
Since COVID

Average Rent Change: $0.76/SF
Since COVID

1,430,618 SF
Absorbed since COVID

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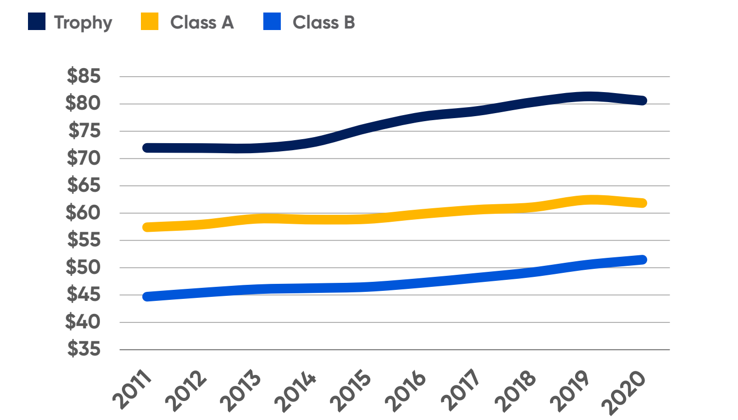
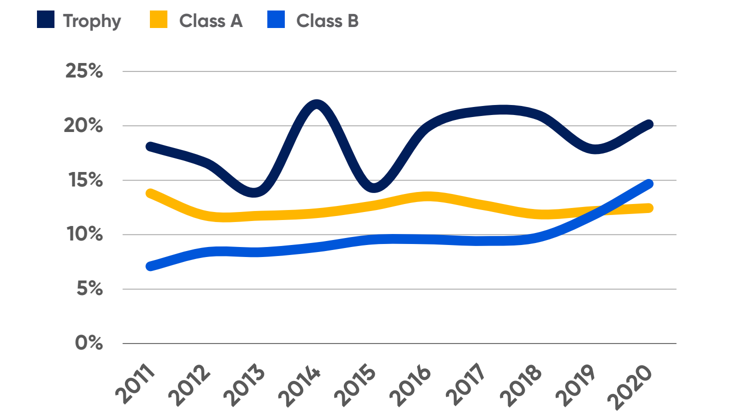
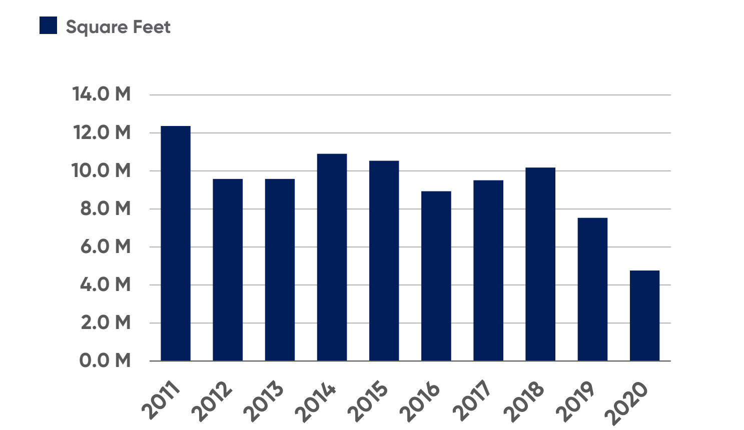
Average Asking Rents



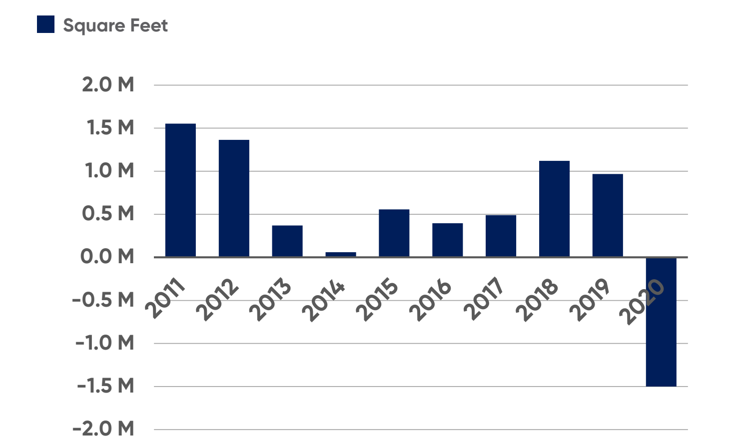
Average Vacancy Rate



Leasing Activity



Net Absorption



COVID Slump Continues, Challenging Coworking Providers

The District of Columbia office market fundamentals' effects due to COVID-19 continued accelerating during the fourth quarter of 2020. These pandemic-induced impacts have influenced some market drivers more than others, one such driver being coworking providers. As a primary draw to coworking facilities includes shared spaces and amenities, heightened health-conscious awareness has reduced shared space attractiveness. Since the onset of COVID, coworking providers, such as WeWork and Spaces, have struggled and been forced to close multiple locations across DC. Other providers, such as MIXER and Make Offices, have shuttered completely as the providers could not sustain business activities during the pandemic. Coworking spaces represented 66% of DC's total occupancy expansion in 2019, allowing for possible significant swings in future occupancies due to COVID-induced closures.

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Q4 Top Leases

Tenant	Submarket	Address	Size	Type
GSA - US Small Business Administration	Southwest	409 3rd Street, SW	266,193	New Lease
Skadden, Arps, Slate, Meagher & Flom LLP	East End	1440 New York Avenue, NW	199,902	New Lease
GSA - Department of Veterans Affairs	CBD	1800 G Street, NW	95,444	New Lease
GSA - Department of Veterans Affairs	CBD	1575 Eye Street, NW	63,798	Renewal
Morning Consult	East End	1025 F Street, NW	49,108	New Lease

Effective Rent Contractions

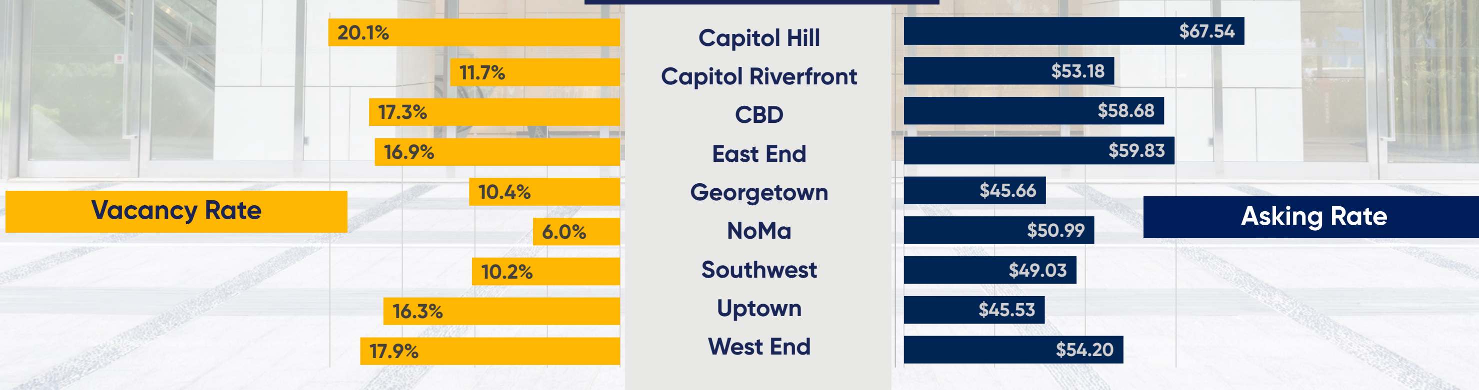
Recessionary Connection

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

Continued reductions in tenant demand and increased vacancies have forced landlords to lower asking rents and offer significant concessions including extended periods of rental abatement, large tenant improvement allowances and absorbing existing lease obligations. Early lease restructures are increasingly common.

Submarket Comparison



Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q4	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
CBD	210	36,684,725	8,238,614	6,360,212	6,818,972	17.3% ▲	(413,027)	(1,045,671)	$70.56	$52.78	$58.68 ▲	591,153	921,129	441,646
East End	219	47,976,061	1,489,500	11,609,762	8,106,034	16.9% ▲	(175,538)	(522,609)	$64.63	$50.28	$59.83 ▼	202,791	177,729	4,041
Downtown Core	429	84,660,786	9,728,114	17,969,974	14,925,006	17.6% ▲	(588,565)	(1,568,280)	$66.66	$51.72	$59.32 ▼	793,944	1,098,858	445,687
Capitol Hill	38	5,642,403	153,528	1,733,451	1,132,558	20.1% ▲	(34,480)	141,663	$72.09	$52.19	$67.54 ▲	226,841	-	-
Capitol Riverfront	12	2,843,768	80,554	934,708	331,951	11.7% ▲	(2,321)	100,749	$53.18	N/A	$53.18 ▼	557,948	124,928	124,928
Georgetown	42	3,269,808	52,670	537,878	339,532	10.4% ▼	(33,591)	(69,647)	$52.60	$40.49	$45.66 ▼	-	-	-
NoMa	36	10,534,821	138,706	1,396,336	636,316	6.0% ▲	(23,798)	486,967	$51.11	$46.96	$50.99 ▼	38,191	545,823	545,823
Southwest	34	11,664,233	22,796	1,578,997	1,184,639	10.2% ▲	(152,528)	(299,345)	$55.15	$47.07	$49.03 ▼	866,203	-	-
Uptown	122	7,258,861	222,184	1,837,814	1,183,657	16.3% ▲	(36,456)	(128,065)	$51.00	$42.36	$45.53 ▲	281,655	63,613	47,084
West End	20	3,274,791	154,004	713,820	586,188	17.9% ▲	(19,526)	(163,355)	$56.10	$54.18	$54.20 ▲	-	-	-
District of Columbia	754	130,061,581	3,503,501	29,833,581	20,411,302	15.7% ▲	(891,265)	(1,499,313)	$63.34	$50.61	$57.81 ▼	2,764,782	1,833,222	1,163,522