

FIGURES | WASHINGTON, D.C. OFFICE | Q4 2023

Vacancy Increases Moderate and Absorption Slows to End the Year

▲ 21.2%

Vacancy Rate

▲ (52,078)

SF Net Absorption

▶ 716,092

SF Under Construction

▲ \$58.37

Average Gross Asking Rate

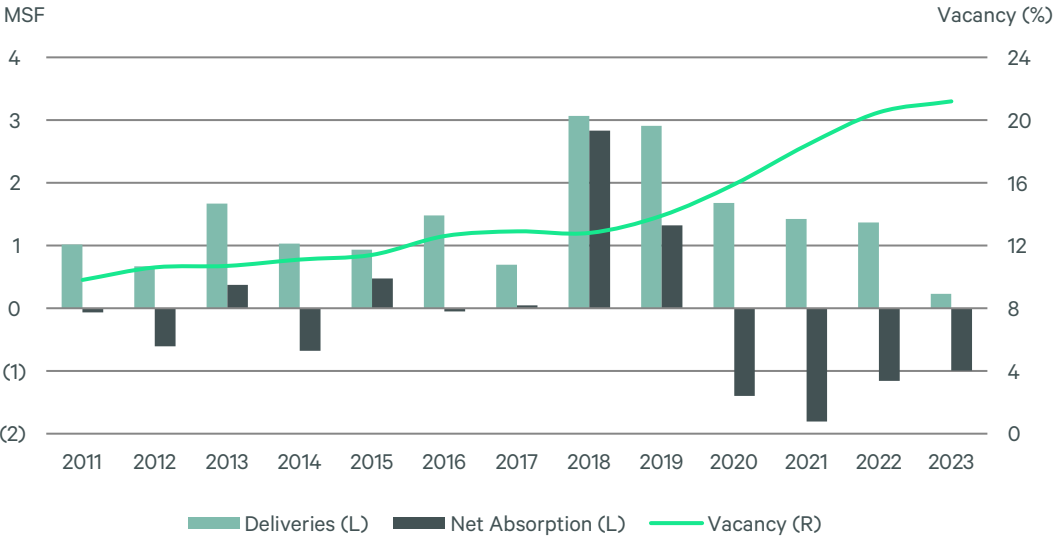
Note: Arrows indicate change from previous quarter.

During the fourth quarter, the Washington, D.C. office market recorded 52,000 sq. ft. of negative net absorption. As a result, vacancy increased 10 basis points (bps) over the prior quarter to 21.2%. In total, the market posted 1.0 million sq. ft. of occupancy loss in 2023, driven by law firm densification, vacant sublease space, and large consolidations. While the overall vacancy rate increased 70 bps over the course of 2023, the increase is shallower than the 210 bps increase posted in 2022. Looking forward, the dwindling supply pipeline should help keep future vacancy increases to a minimum.

Flight-to-quality remains the bright spot in the Washington, D.C. office market, as tenants opt for high quality space when relocating. While vacancy increased for commodity space during Q4, the Trophy vacancy rate reached a cyclical low of 11.5% and Class A+ vacancy decreased 20 bps to 24.7%. This trend is expected to continue into 2024, however supply constraints for large blocks in quality buildings will likely result in an increase in renewals.

Gross leasing during the fourth quarter totaled 1.5 million sq. ft., bringing the annual total to 7.4 million sq. ft. Activity is subdued across all size tranches, but the decline in large transactions (24 in 2023 compared to 45 on average pre-pandemic) had a significant impact on market fundamentals. Looking forward to 2024, gross leasing levels are expected to remain subdued until the economic uncertainty passes and the federal funds rate drops.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Government

Despite rightsizing efforts and varying return-to-office policies across agencies, the federal government remains the largest user of office space in the District and leased more space than any other industry in 2023. Many of the transactions were short-term renewals as agencies determine their long-term space needs. Government tenants accounted for the three largest transactions signed during the fourth quarter. The D.C. Government and The Smithsonian Institution renewed their existing footprints at 1200 1st Street NE and 750 9th Street NW, respectively, while GSA renewed two leases on behalf of the Federal Aviation Administration.

Nonprofit

Nonprofit tenants signed more leases in Washington, D.C. than any other industry in 2023, with 37 leases totaling 880,000 sq. ft. The sector was one of the few sources of occupancy gain this year, fueled by transactions such as Progressive Policy Institute and Third Way in the fourth quarter. Nonprofits are no exception to the flight-to-quality trend, with 57% of nonprofits that relocated upgrading their space by class.

Legal

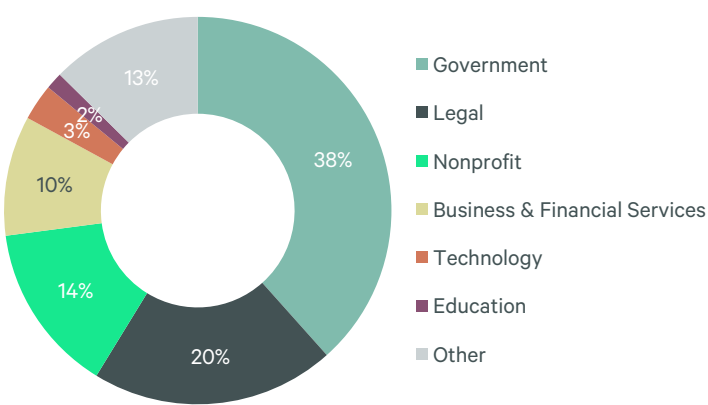
Leading the return-to-work charge, law firms were particularly active in 2023, signing of 1.3 million sq. ft. of leases. During the fourth quarter, Cohen Milstein restructured its lease at 1100 New York Avenue NW, shedding 10,000 sq. ft. in the process. Additionally, Bryan Cave renewed 24,000 sq. ft. at 1155 F Street NW, decreasing its footprint by 73%.

FIGURE 2: Select Notable Q4 2023 Lease Transactions

Tenant	Industry	Address	Submarket	Lease Type	SF	Market Effect
D.C. Government	Government	1200 1st St NE	NoMA	Renewal	215,076	Flat
The Smithsonian Institution	Government	750 9th St NW	East End	Renewal	133,984	Flat
GSA – FAA	Government	950 L'Enfant Plz SW	Southwest	Renewal	99,585	Flat
Cohen Milstein	Legal	1100 New York Ave NW	East End	Restructure	41,281	Contraction
Zuckerman Spaeder	Legal	2100 L St NW	CBD	New Lease	40,531	Contraction
IREX	Nonprofit	1350 I St NW	East End	New Lease	32,899	Contraction
GSA – FAA	Government	370 L'Enfant Plz SW	Southwest	Renewal	25,518	Flat
Bryan Cave	Legal	1155 F St NW	East End	Renewal	24,000	Contraction
Progressive Policy Institute	Nonprofit	1919 M St NW	CBD	Sublease	20,464	Growth
American Forest & Paper Association	Nonprofit	601 13th St NW	East End	New Lease	20,110	Contraction

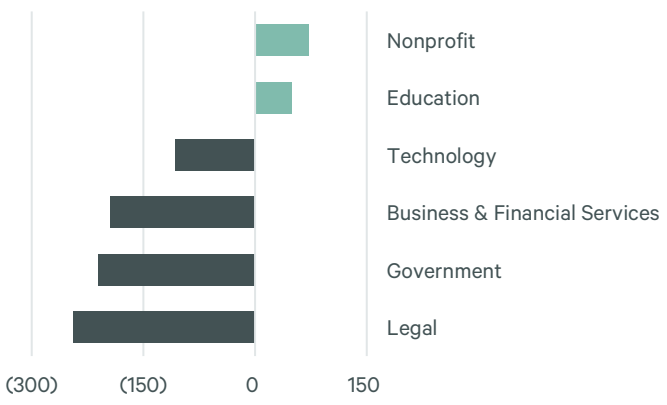
Source: CBRE

FIGURE 3: 2023 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2023 Net Demand by Sector (SF, 000's)



Source: CBRE

Development Activity

The construction pipeline in Washington, D.C. is at its lowest level in 30 years. Just two buildings totaling 230,000 sq. ft. delivered during 2023: 20 Massachusetts Avenue NW and 1401 Massachusetts Avenue NW.

Only one Trophy building—1700 M Street NW—is scheduled to deliver in 2024, and no office buildings are set to deliver in 2025. The final Trophy building under construction—600 5th Street NW—is scheduled to deliver in early 2026.

Pricing

Overall asking rents in Washington, D.C. average \$58.37 per sq. ft. on a full-service basis, up slightly from Q3. Tenant improvement allowances have stabilized, averaging about \$140 per sq. ft for three consecutive years. Landlords have proven to be more flexible with abatement, which is up 9% from 2022 levels, averaging 21 months (normalized for a 12-year gross term, weighted by sq. ft.).

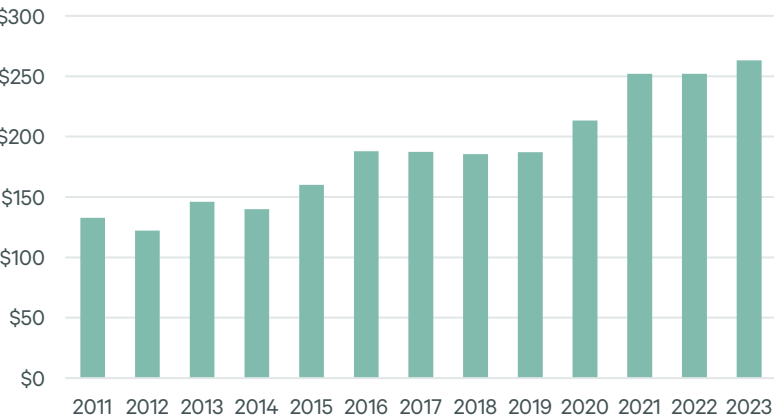
As vacancy quickly increased beginning in 2020, particularly in commodity space, landlords offered high concession packages while holding base rates steady. Three years later, as lending conditions worsened, some landlords are struggling to offer market concessions, adding another layer of complexity to transact in today’s market.

FIGURE 5: Development Pipeline – Under Construction

Expected Delivery	Address	Submarket	SF	Preleased (%)	Developer(s)
2024	1700 M St NW	CBD	334,000	56%	Skanska
2026	600 5th St NW	East End	382,092	52%	Stonebridge + Rockefeller Group

Source: CBRE

FIGURE 6: Total Concession Packages



*Analysis includes non-GSA leases sized 10,000 SF+ in the CBD, East End and Capitol Hill. Concessions weighted by SF and normalized for 12-year term.

Source: CBRE

FIGURE 7: Asking Rent Changes by Asset Class

Asset Class	Gross Rent Per SF	Quarter-over-Quarter Change
Trophy	\$86.16	+0.03%
Class A	\$60.15	+0.21%
Class B	\$48.68	-0.13%
Overall	\$58.37	+0.37%

Source: CBRE

Economic Outlook

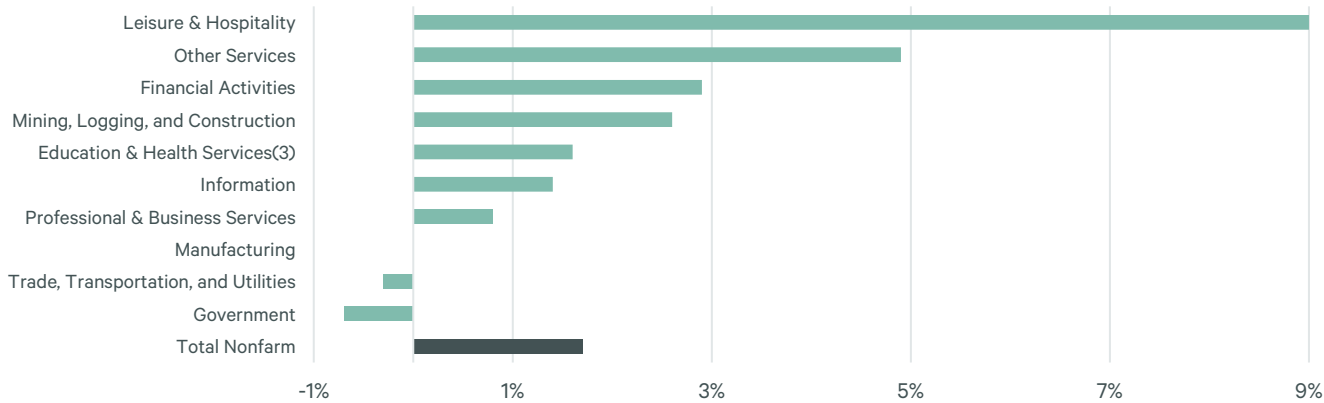
The combination of continued economic momentum with a likelihood that the Fed’s dramatic tightening cycle is now complete makes a ‘soft landing’ appear more likely for early 2024 but the pace of growth will be more modest than in recent quarters.

Foremost, lower and middle-income households no longer have the luxury of excess savings and the pace of wage growth, while remaining elevated, is slowing. This nuance with wage growth is important. Higher wages are helping to maintain higher, albeit decelerating, core inflation.

This backdrop will likely translate into the Fed only slowly lowering its target rate in 2024 (CBRE expects 75 to 100 basis points worth of rate cuts in 2024). This outlook may deter some spending, but it does help illuminate a pathway forward for real estate capital markets.

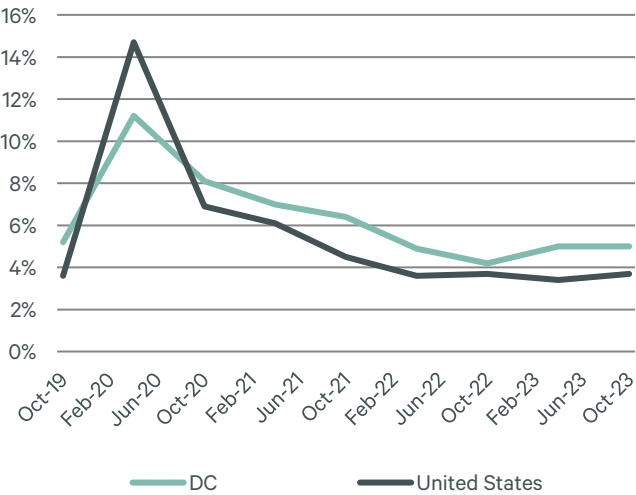
Indeed, the combination of healthy fundamentals for many sectors and thawing credit markets could provide some welcome upside surprises for real estate performance in 2024.

FIGURE 8: Employment Growth by Industry, 12-Month Percent Change



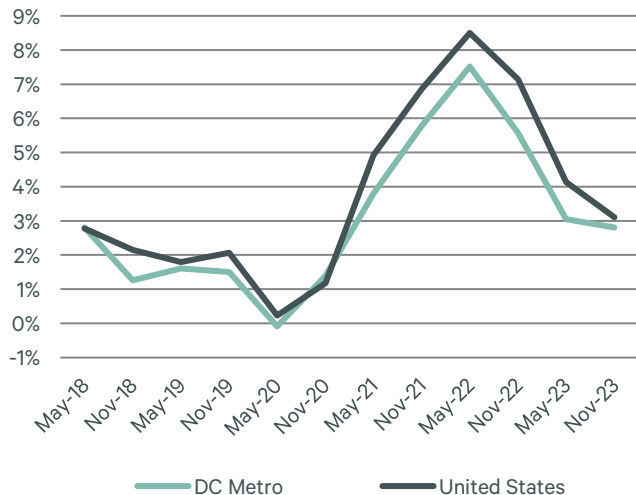
Source: BLS

FIGURE 9: Unemployment Rate



Source: BLS

FIGURE 10: Consumer Price Index, 12-Month Percent Change



Source: BLS

FIGURE 11: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2023 Net Absorption (SF)	2023 Net Absorption (SF)	Gross Asking Rent (\$/SF)	Under Construction (SF)
Capitol Hill	31	5,159,564	23.2	17,442	377	75.75	-
Capitol Riverfront	14	3,311,678	23.5	(9,162)	(63,079)	58.05	-
CBD	225	39,660,103	21.4	51,824	(112,191)	57.82	334,000
East End	196	43,711,596	24.2	(56,430)	(30,425)	60.44	382,092
Georgetown	22	2,634,779	34.2	(12,539)	(180,132)	52.31	-
NoMA	45	12,228,252	13.4	(2,302)	(592,586)	52.20	-
Southwest	37	12,409,211	14.5	(32,865)	(71,923)	52.23	-
Uptown	64	4,523,743	19.0	(6,768)	10,002	46.00	-
West End	16	2,687,653	20.9	(1,278)	46,755	53.15	-
Trophy	47	14,173,398	11.5	26,164	181,864	86.16	716,092
Class A	301	78,542,608	21.1	2,918	(866,353)	60.15	-
Class A+*	44	13,692,279	24.7	(5,093)	-	71.59	-
Class B	255	30,560,318	24.0	(69,734)	(310,696)	48.68	-
Class C	47	3,050,255	25.4	(6,333)	(83,631)	47.54	-
Overall	650	126,326,579	21.2	(52,078)	(993,202)	58.37	716,092

Source: CBRE *Buildings achieving top 25% of taking rents, many recently renovated

Survey Criteria:

Includes all classes of competitive single and multi-tenant, non-owner-occupied office buildings 20,000 sq. ft. and greater in Washington, D.C.

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