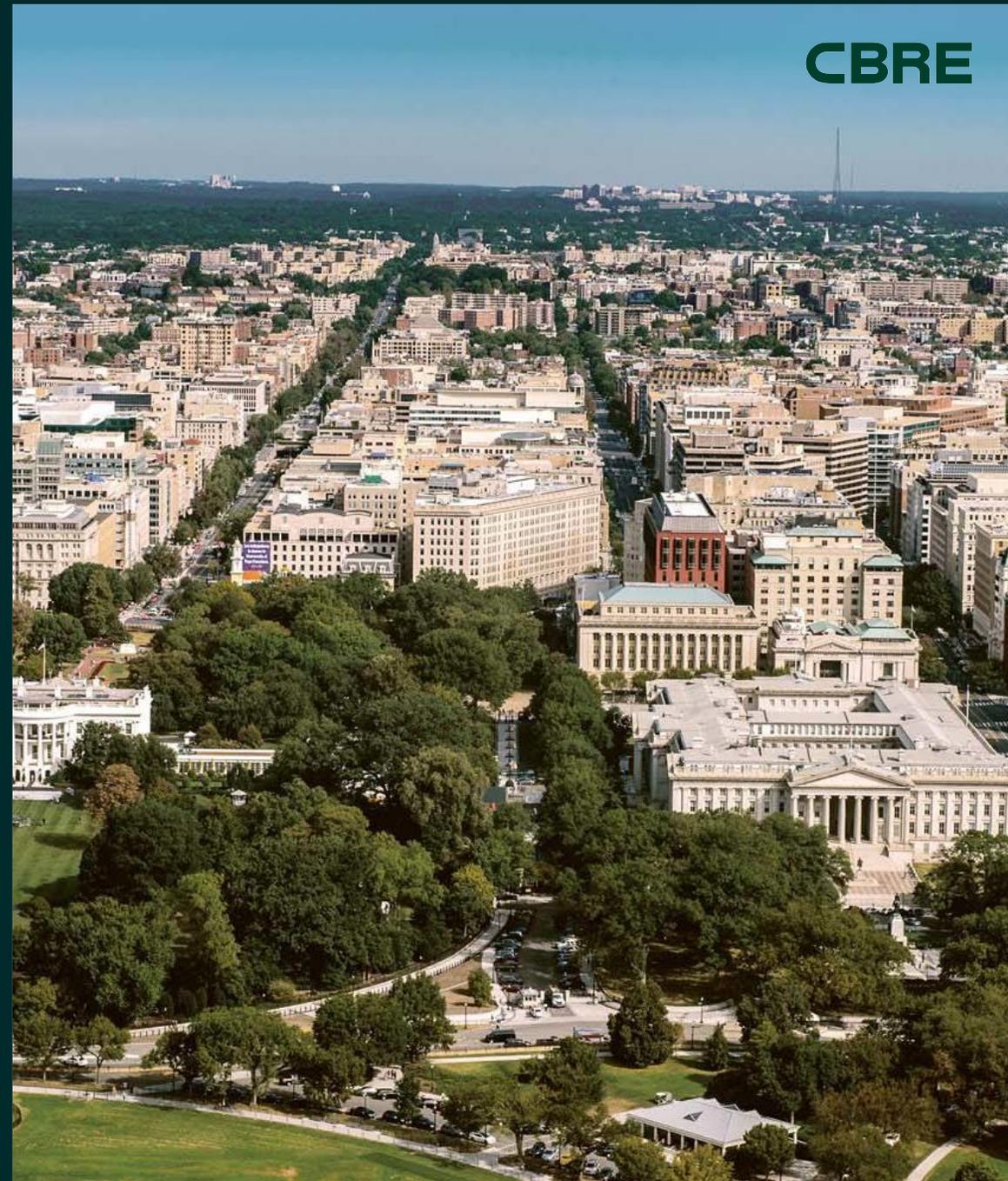


Washington, D.C. Private-sector Leasing during the Pandemic: *Movers, Shakers, and a Couple of Surprises*

LOCAL RESPONSE

CBRE MID-ATLANTIC RESEARCH
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Introduction

Despite twists and turns of the pandemic—and remote work introducing the biggest existential crisis office real estate has perhaps ever faced—office leasing in the nation’s capital has not been a one-sided story. In this study, CBRE Research analyzes leasing activity by Washington, D.C.’s private-sector tenants during the pandemic, highlighting five key trends that have shaped market dynamics. **Amid headwinds and uncertainty, many office occupiers continue to grow their footprint, upgrade their space, and value well-designed office as a key component to help attract their employees back to the workplace.**

Parameters: This analysis includes private-sector tenant leases sized 10,000 sq. ft. or greater signed between Q3 2020 and Q4 2021.

Q2 2020 leases were not included due to many of them having been far along in the lease negotiation process prior to the start of the pandemic, and therefore likely not reflective of pandemic-affected dynamics.

Pre-pandemic baseline is based on private-sector tenant leases sized 10,000 sq. ft. or greater signed between Q3 2018 and Q4 2019.

181

Leases Signed

5.1

MSF Leased

447,000 SF

Net Demand Growth

13

New Market Entrants

Key Findings

1

Leasing slowed materially, but is on the mend. Activity reached its pandemic-peak in Q4 2021 at 1.2 million sq. ft., which nonetheless remains 31% down from the historical level (1.8 million sq. ft.).

2

Despite uncertainty, many tenants continue to think (and act) long-term. 63% of the larger leases sized 10,000+ sq. ft. signed during the pandemic carry an 8+ year term.

3

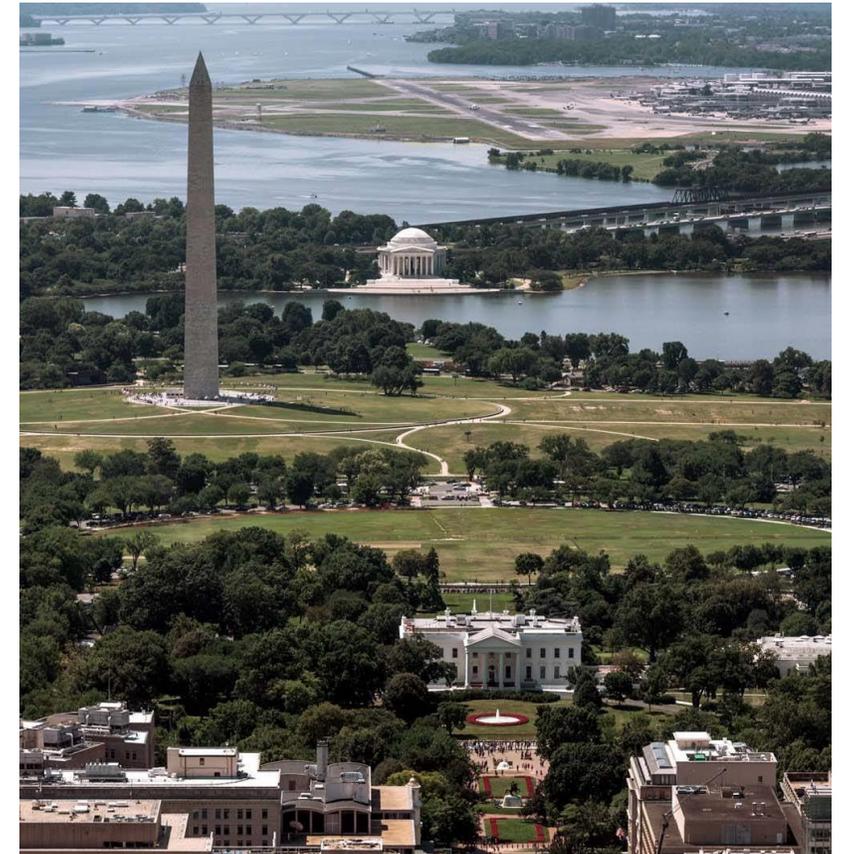
The pursuit of quality (and market bifurcation) continues. Of all tenants that have signed a lease to relocate, two out of every three took the opportunity to trade up for higher-quality space.

4

Space reductions don't tell the whole story. Perhaps surprisingly, 41% of leases (10,000+ sq. ft.) led to net demand growth for the market, outnumbering leases that represented space reductions (27%).

5

Movers and shakers. Despite tech being a sector at the forefront of workplace flexibility, tech firms remain a key driver of office demand. Two out of every three tech leases resulted in occupancy gains.



1

Leasing slowed materially, but is on the mend

Private-sector leasing fell to its pandemic-trough in early 2021 and began to rebound as soon as vaccines became available. Activity reached its pandemic-peak in Q4 2021 at 1.2 million sq. ft., although that remained 31% down from the historical level (1.8 million sq. ft.).

While activity by larger tenants has been trending in the right direction, relative inactivity among small tenants (under 10,000 sq. ft. in size) remains a hurdle to market recovery. Since the onset of the pandemic, small tenants have given back an aggregate 1.1 million sq. ft. of space, while gross leasing volume remains 40% below pre-pandemic levels.

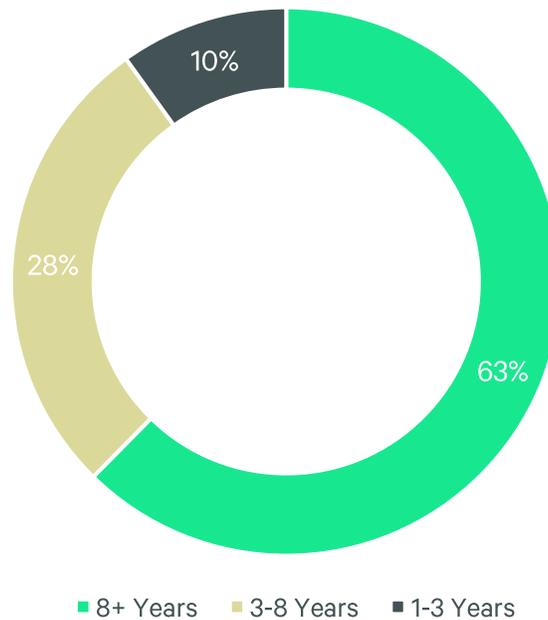


2 Tenants continue to think (and act) long-term

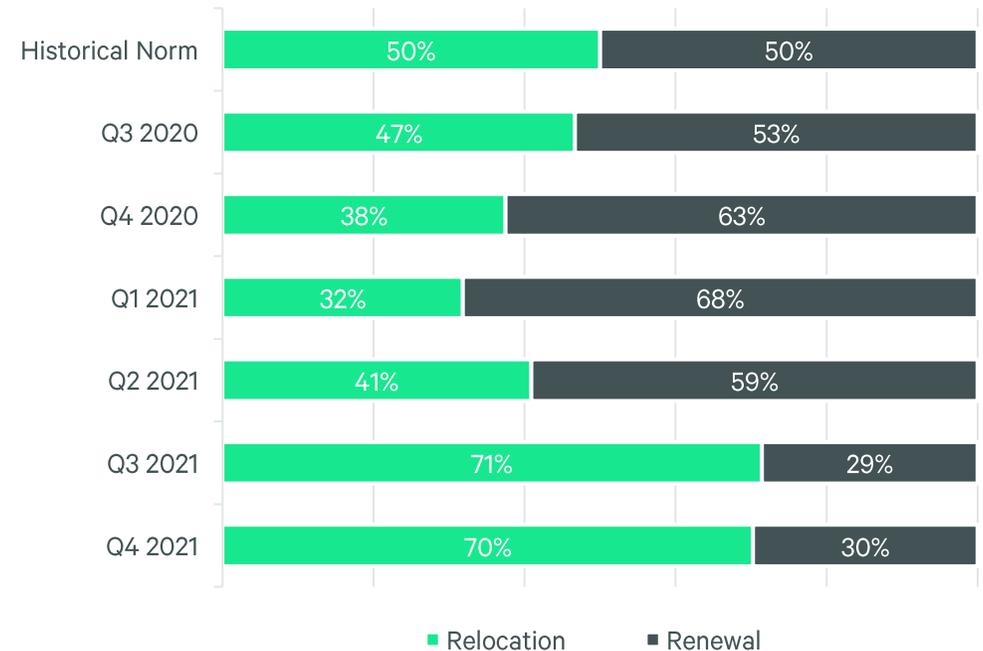
Despite uncertainty from the pandemic and remote work, most larger tenants have continued to opt for longer-term commitments, with 63% of all signed leases (10,000+ sq. ft.) carrying an 8+ year term. Many took advantage of historically soft market conditions to lock in space for 10+ years. Additionally, after bottoming out last winter, relocations made a strong return during the second half of 2021, accounting for 70% of all transactions 10,000 sq. ft. or larger.

In contrast, activity by smaller tenants has continued to skew toward shorter-term leases and renewals. To minimize build-out costs and avoid supply-chain uncertainties, most smaller tenants have favored spec suites and turn-key options. Among CBRE-represented buildings, 72% of all leases under 5,000 sq. ft. in size signed during the pandemic were for spec suites.

Lease Term Length



Relocation vs. Renewal

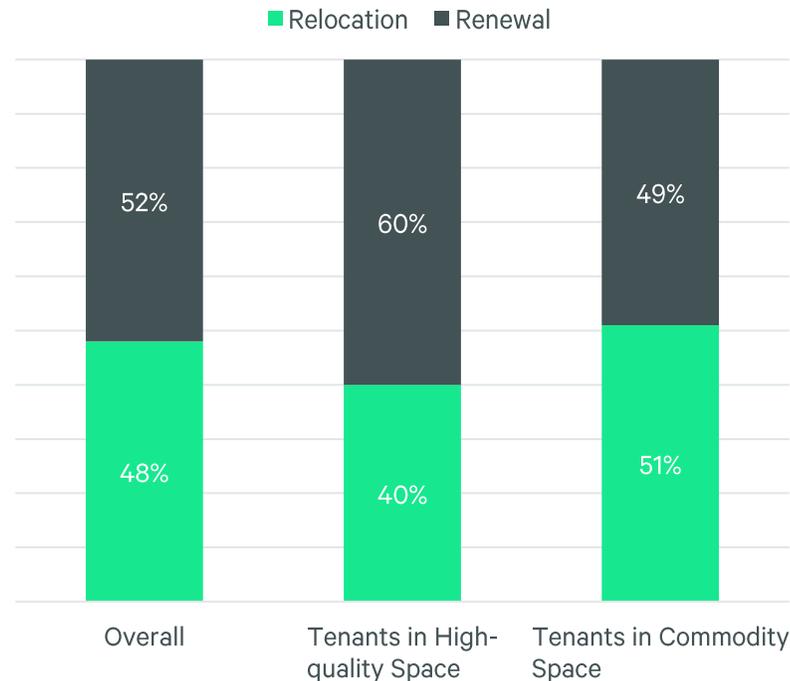


3 And are 2x as likely to trade up than to move laterally

The flight to quality has continued throughout the pandemic. Tenants in commodity space have shown a higher relocation probability than tenants already in what we consider high-quality space. Of the 67 tenants that have signed a lease to relocate, two out of every three took the opportunity to trade up for higher-quality space.

This trend underscores the importance of quality office space to help attract the return of employees back to the workplace. Generous concession packages that offset relocation and build-out costs, as well as the ability to reduce overall footprint in more efficient space, were also enabling factors.

Renewal Probability



Trade-up vs. Lateral Move (# of Leases)

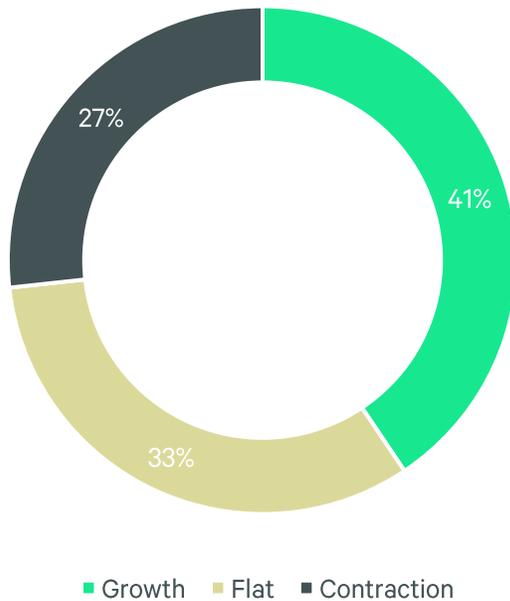


4 Space reductions don't tell the whole story

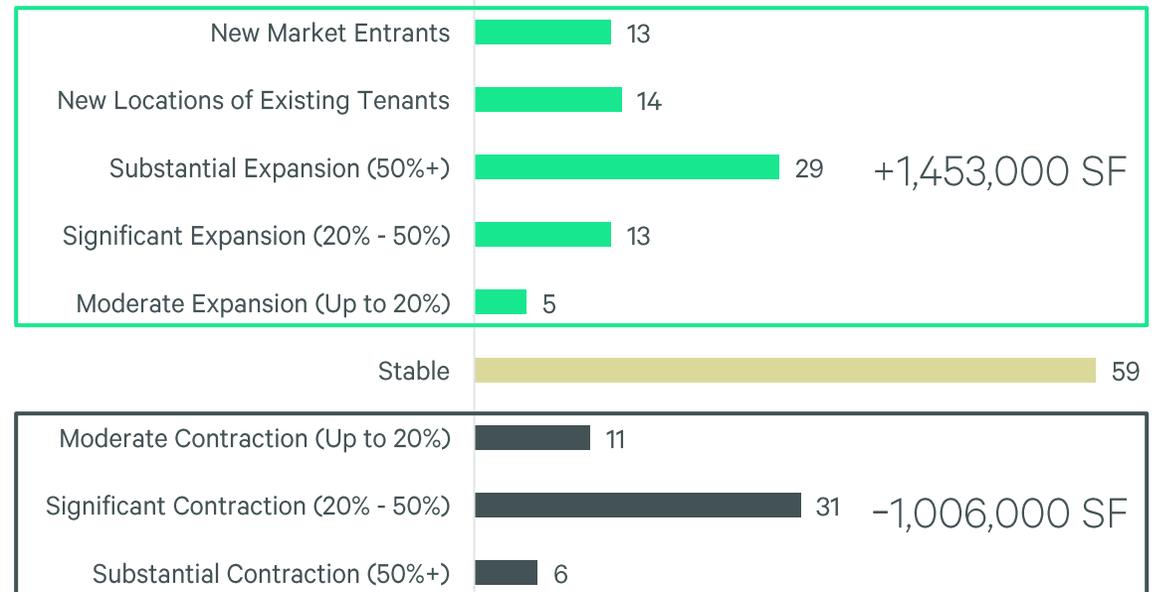
Office vacancy in the District reached an all-time high during the pandemic (18.4%), driven by 2.6 million sq. ft. of occupancy loss and the delivery of 516,000 sq. ft. of vacant space.

However, there are green shoots of growth from both existing tenants expanding and new users entering the market. Of the 181 leases signed during the pandemic, 74 (41%) led to net demand growth for the market, outnumbering leases that represented space reductions (48, or 27%). 13 tenants established their first D.C. office presence, while 19 existing ones more than doubled their footprint. However, this growth was counterbalanced by tenants terminating leases or letting leases expire, as well as adding space to the sublease market.

Market Effect Breakdown



Detailed Breakdown (# of Leases)

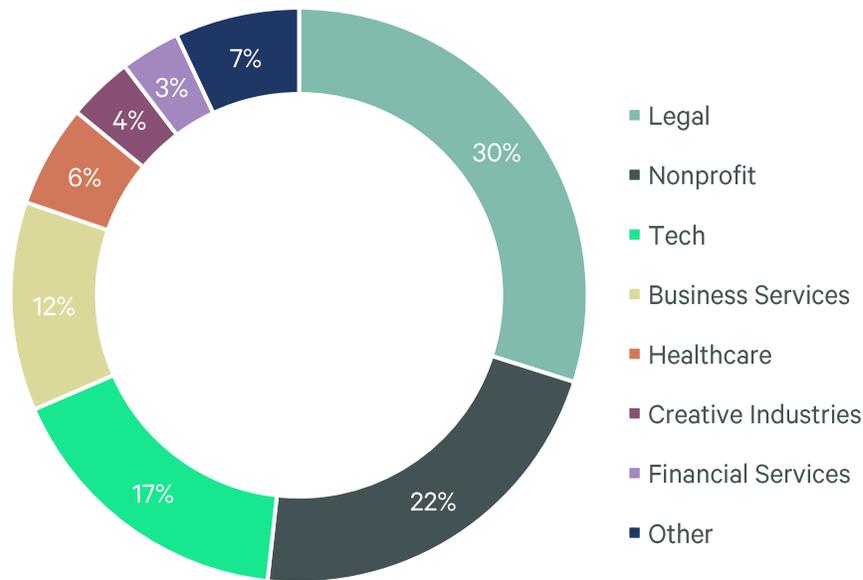


5 Movers and shakers

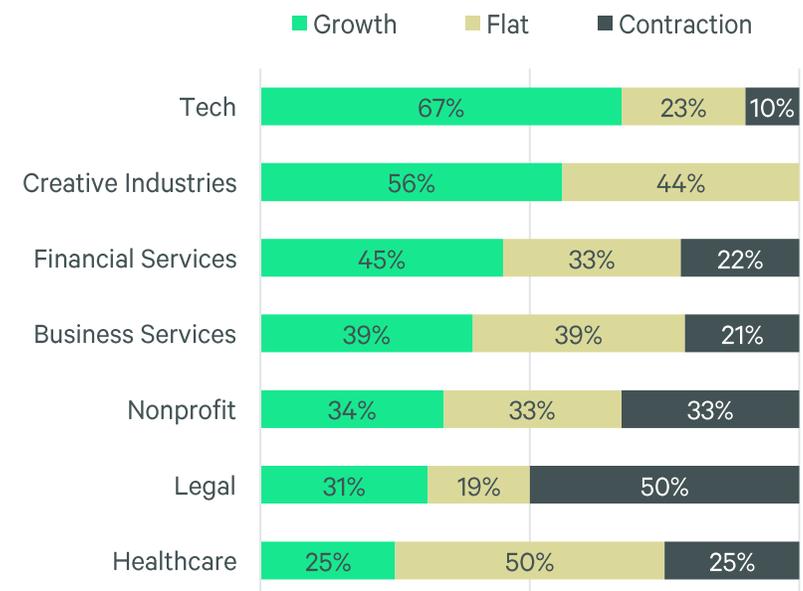
Law firms and nonprofits leased the most space during the pandemic, proportionate to their historical market shares. Although 18 out of the 36 law firm leases led to space givebacks, nine firms expanded their footprint by an average of 20,000 sq. ft. Examples include Mintz Levin, Husch Blackwell, and Goodwin Procter.

Tech tenants contributed 17% of private-sector leasing, up significantly from their 4% share of the tenant base. Moreover, two out of every three tech leases resulted in growth, with Morning Consult, Enovational, Microsoft and TikTok being some of the notable examples.

Gross Leasing by Industry Sector



Market Effects by Industry Sector



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