Intelligent Investment

2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

WASHINGTON, D.C.

CBRE RESEARCH
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Office Outlook

01

Employment stability will strengthen market fundamentals.

Washington's private sector employment base is expected to expand by 0.2% in H2. However, projected federal government job cuts will offset that growth, resulting in an overall 0.2% decline in total employment. While federal workforce reductions continue to weigh on the local economy, the pace of those cuts has slowed considerably compared with the prior 18 months. (Source of employment data: Oxford Economics)

Washington's office market has stabilized in 2026, with vacancy dropping by 40 basis points (bps) to 22.2% in H1. This is in line with CBRE's forecast at the beginning of the year. Conditions for commodity buildings are expected to improve through year-end as federal lease contractions slow, private sector tenant activity remains strong and supply shrinks. Prime and Class A+ properties will benefit the most.

02

Federal lease contractions will slow.

Federal government lease contractions and termination notices drove the majority of occupancy loss in Washington during 2025, counteracting green shoots in the market from the private sector. However, these lease contractions slowed significantly by June 2026, aligning with CBRE's predictions at the start of the year.

This slowdown in federal government contraction will continue to rebalance the overall office market through year-end. In a best-case scenario, the accelerated disposal of federally owned space could push some agencies to lease space in the broader office market. However, this depends on the General Services Administration's strategy for consolidating agencies into shared office locations.

03

Law, finance and technology firms will drive private sector growth.

The private sector has recovered and continues to gain occupancy. Despite macroeconomic headwinds, the sector's strong leasing in H1 positions it to outpace the 10-year annual average, mirroring 2025 velocity. Law firms, consulting, financial services and technology companies led leasing activity in H1, and current private sector requirements indicate that they will remain the primary drivers of activity through year-end.

Key Takeaways

For Tenants

- Expect continued competition for limited prime space, especially for large blocks over 50,000 sq. ft. in the near term and smaller blocks in the long term. Rents may rise and concessions may continue to fall in some well-positioned buildings.
- Competition will persist for small and midsize blocks of space in high-quality buildings, as well as commodity properties, and concessions will remain elevated.

For Owners & Investors

- The slowdown in federal lease contractions will continue to stabilize occupancy levels.
- Well-position buildings will see growing demand from credit tenants, as private sector occupiers—led by law, consulting, financial services and technology firms—are expected to expand by a combined 348,000 sq. ft.
- Commodity Class A owners stand to benefit as tenants unable to secure the limited prime space available consider the next tier of buildings.
- CBRE Econometric Advisors projects Washington's overall office vacancy rate to decline by 60 bps by year-end, suggesting improved net absorption and leasing activity in H2.
- Historically low office construction levels and ongoing conversions will reduce supply competition, supporting occupancy and rent growth.

Office Outlook (cont.)

At the same time, private sector occupancy gains in Washington will be more gradual relative to major markets like San Francisco and New York City, where technology and financial services tenants, including many startups and new-to-market companies, are expanding at a larger scale.

Active tenant requirements across all industries suggest net growth of approximately 348,000 sq. ft., as more tenants seek to expand their space. The education sector is expected to continue expanding in H2, particularly as existing and new-to-market universities seek to establish a policy/advocacy presence near Capitol Hill and downtown.

04

Flight to quality and supply constraints will persist.

The market has seen a net decline in office inventory, with office construction at a 30-year low and more offices being converted or redeveloped for alternative uses. Conversely, the decline in construction has significantly boosted the prime (trophy) office market, which claimed the second-highest occupancy rate nationally (behind Manhattan) and the second-highest year-over-year rent growth (behind Dallas). Prime vacancy below 10% and significant hurdles that constrain new construction will drive more tenants to Class A+ and commodity Class A properties with rich amenities. Prime supply has been most limited for spaces of 50,000 sq. ft. or more, but smaller, high-quality spaces are also becoming increasingly scarce. CBRE Econometric Advisors projects overall office vacancy to decline by 60 bps by year-end, as occupancy continues to rise amid a net decline in office inventory.

05

Capital markets activity will increase.

Improving office fundamentals and an expected uptick in net absorption through year-end 2026 will continue to support office capital markets activity. Cap rates are expected to remain around 10% for higher quality, stabilized assets through H2. Office sales volume rose by 20% year-over-year in H1 and is expected to increase moderately in H2, in line with national trends. Distress will continue to create more opportunities for interested buyers to acquire buildings at discounted prices. Lenders will evaluate value-add projects, and declining prices for commodity Class A, B and C buildings will spur more redevelopment and conversion activity. Private capital will remain the most active buyers, while institutional investors will remain reluctant to pursue non-prime properties.

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Multifamily Outlook

01

Private sector growth and federal workforce stability will strengthen demand.

Private sector employment growth and slowing federal job cuts in H2 are expected to stabilize multifamily demand and market fundamentals through year-end. The significant gap between monthly mortgage and rental payments will also continue to boost demand.

02

Limited construction will drive fundamentals and investment choices.

New construction in Washington will decrease sharply in the coming years. Current barriers to new construction are expected to continue, including high building materials costs, a construction labor shortage and high borrowing costs. New supply completions will also continue to decline. CBRE Econometric Advisors forecasts fewer than 2,000 units will be completed by year-end and only 4,117 units completed by the end of 2029. This is well below the 10-year annual average of approximately 5,000 units. Limited supply and stable demand is expected to drive 1,800 units of positive absorption in H2, on par with major national markets. As a result, rental rates are forecast to increase at an annual rate of 1.5%, according to CBRE Econometric Advisors. Higher-quality assets in prime locations are expected to outpace that growth.

Traditional developers will continue to buy rather than build, focusing on existing properties with attractive discounts to replacement cost. Only two of Washington's 20 most active multifamily developers had space under construction in the market as of July 2026.

03

Conversions will spur construction activity.

Office conversion and redevelopment projects in northwest Washington account for roughly 40% of the current construction pipeline by units. Developers will remain attracted to these projects for three primary reasons. First, prices for obsolete office properties continue to decline as owners of Class B office buildings reset their expectations. Second, some of these projects can be redeveloped at a lower cost than ground-up construction. Third, many of these properties are adjacent to high-demand residential neighborhoods like Georgetown, West End, Dupont Circle and Logan Circle that rarely welcome new supply. Washington's Housing in Downtown program's tax abatement will also continue to support new office-to-residential conversion and redevelopment projects.

Key Takeaways

For Owners & Investors

- Federal job cuts have slowed dramatically and Washington's economy is expected to stabilize through year-end. These conditions will support multifamily housing demand.
- The gap between mortgage and rent payments will continue to drive renter demand.
- Limited supply and stable demand are expected to spur 1,800 units of positive absorption in H2.
- Office-to-residential conversions will add to the market's limited construction pipeline.
- Investors should monitor policy changes resulting from local elections.

Multifamily Outlook (cont.)

04

Local elections may impact investor confidence.

The 2025 RENTAL Act has been well received for reforming the Tenant Opportunity to Purchase Act, which opponents have long claimed impairs multifamily sales. However, upcoming local elections could policy uncertainty, including Initiative 88, which calls for limits on rent increases for rent-controlled units. This could impact multifamily sales activity in the short term, even as some investors might want to transact due to the market's improving fundamentals.

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Retail Outlook

01

Limited supply will continue to support fundamentals.

Washington's retail market will continue to deal with a limited pipeline of retail space amid a national trend of subdued office and multifamily construction activity. New storefront completions will remain scarce, as fewer mixed-use projects break ground. This will drive occupancy levels and favor owners of space in premier trade areas.

The market's overall vacancy rate is expected to rise by 50 bps to 5.8% by year-end but decline to 4.8% in 2027. Meanwhile, overall rents will increase by 0.6% year-over-year in 2026 as high-quality spaces in premier locations are expected to outperform the broader market.

02

The K-shaped consumer spending curve will widen.

Higher-income and middle-to-lower-income consumers are shaping retail demand in 2026. Affluent households are expected drive discretionary spending, supporting luxury retail, experiential concepts, wellness operators and chef-driven restaurants. These retailers will increasingly focus on customers seeking experiences, convenience and differentiated products rather than purely price-driven offerings. At the same time, middle-income consumers will favor value-oriented retailers as affordability concerns persist. This is characteristic of a so-called K-shaped economic recovery. Tourism is likely to follow this trend in H2, as higher-income travelers with more disposable income drive visitor growth.

Value-oriented retailers may expand their presence downtown, particularly in more supply-constrained residential neighborhoods if possible.

Key Takeaways

For Tenants

- Retailers should align site selection and merchandising strategies with increasingly polarized consumer spending patterns to effectively target consumers.
- Quality spaces remain limited and new-to-market retailers looking to establish a presence must act fast when opportunities come to market.

For Owners & Investors

- Limited construction and new ground-floor retail space is expected to maintain the market's healthy fundamentals and competition for premier storefront locations.
- Demand will remain strongest in Georgetown, CityCenterDC/East End, 14th Street, Shaw and Union Market/NoMa, where a concentration of affluent consumers and mixed-use properties support retail sales.

Retail Outlook (cont.)

03

Flight to quality will continue.

Retailers will continue to pursue higher-performing locations in established mixed-use districts and dense residential neighborhoods. Georgetown, 14th Street, Shaw and Union Market/NoMa are all well-positioned to capture leasing demand. Retailers in the downtown core that rely on daytime worker traffic are likely to be impacted by the K-shaped consumer spending curve. Submarkets with higher-quality office buildings and higher-income workers will see stronger discretionary spending on chef-driven restaurants. Meanwhile, submarkets with lower-tier office properties, lower occupancy rates and lower-to-middle income workers will see weaker consumer spending.

04

Restaurants will follow investment.

Downtown submarkets have recently seen a raft full-service restaurants signing new leases, reflecting a renewed commitment to downtown. This confidence has been driven by steadily improving return-to-office rates, owner investment in office building improvements and the mayor's efforts to revive downtown. However, existing tenants face uncertainty as policies may change under a new mayor.

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