Intelligent Investment

2026
U.S. Real Estate Market Outlook

REPORT

WASHINGTON, D.C.

CBRE RESEARCH
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Economic & Employment Outlook

01

UNCERTAINTY SUBSIDES

While U.S. macroeconomic conditions remain challenging in 2026, Washington, D.C.'s regional economy is expected to regain stability following uncertainty related to the federal government contraction launched in 2025. Lease terminations appear to have subsided, and workforce cutbacks are expected to largely end in the first quarter of the year. The private sector will also see some niche pockets of growth.

02

FEDERAL WORKFORCE REDUCTIONS DIMINISH

Federal government employment in Washington, D.C. is projected to fall by roughly 6,000 in 2026, with most of this reduction occurring in the first quarter, according to Oxford Economics. This is far less severe than 2025 when federal government payrolls fell by more than 22,000 in D.C. in one of the fastest reductions in the federal employment base on record.

03

PRIVATE SECTOR STRENGTHENS

The local private sector is expected to follow a more positive trajectory in 2026 as the regional economy benefits from less policy uncertainty, reduced inflation, and lower short-term interest rates.

04

MODEST GROWTH ENSUES

The Washington, D.C. economy is projected to grow by 0.2% in 2026, after a 0.7% gain in 2025, according to Oxford Economics. The city's key office-using sector of professional, scientific and technical services will begin generating jobs again, expanding by 0.4% in 2026 after a 1.1% drop in 2025, offsetting some of the federal job losses. The recovering economy and more vibrant private sector job market will accelerate inflation-adjusted per capita disposable income growth to 2.3% in 2026 from 0.7% in 2025.

*Oxford Economics forecasts for employment and GDP provided as of December 2025.

Key Takeaways

— Private sector employment will improve, offsetting some of the losses of federal government jobs.

— Major reductions to the federal workforce will largely end in the first quarter of 2026.

— Consumer sentiment will be volatile, but private sector employment will improve, return-to-office trends will continue to rise slowly, and tourism will remain relatively strong.

Office Market Outlook

01

SLOWDOWN IN FEDERAL CONTRACTION YIELDS GREATER CERTAINTY IN THE MARKET

High-profile federal workforce cuts and lease contractions dominated the news in 2025. The pace of lease contractions slowed significantly in the second half of 2025. This will continue throughout 2026. Meanwhile, the reductions to the federal workforce will largely end in the first quarter of 2026. The marked slowdown in headcount and lease contractions is expected to help stabilize the office market in 2026.

02

THE PRIVATE SECTOR DRIVES GROWTH

The city's private sector remains a bright spot for demand. In aggregate, current private sector requirements over 20,000 sq. ft. are expected to grow by a total 444,000 sq. ft. in 2026. Law firms, trade associations, and corporations seeking government affairs and business development space will continue to drive leasing activity, supporting stronger fundamentals in the prime (trophy) market. Additionally, a growing contingent of technology firms continues to provide a source of organic growth in the D.C. office market. New and existing tech firms grew by an aggregate 80,000 sq. ft. in 2025, and more are expected to drive additional growth in 2026.

03

DEMAND PREFERS SUPPLY-CONSTRAINED PRIME (TROPHY) ASSETS, SPILLING OVER TO A+ AND WELL CAPITALIZED STANDARD CLASS A

Prime (trophy) vacancy will remain at a record low, and developers face challenging conditions for new development, including high construction and financing costs, as well as a shortage of developable sites. As a result, the market will remain supply-constrained and private-sector demand will continue to spill over into Class A+ and well capitalized standard Class A buildings.

04

CAPITAL MARKETS VOLUME IMPROVES, DRIVEN BY DISTRESS

Akin to the national outlook, local capital markets activity is expected to continue to increase in Washington, D.C., particularly for distressed real estate and conversions of obsolete buildings to other uses. Cap rates will remain high relative to the historic norm. This will continue to drive losses for many sellers, while conversely creating opportunity and lower barrier to entry for investors.

Key Takeaways

FOR OWNERS

- The polarization of the office market will continue. But with prime (trophy) vacancy at record lows, demand will spill over to the Class A+ and standard Class A segments. Rents will increase, driven by demand for top-quality space.
- Private-sector drivers of demand will continue to favor prime (trophy) quality space. Vacancy in that market segment will remain low, and high costs of construction and financing will continue to impede new development. As a result, rents will rise and concessions will continue to fall.
- CBRE Econometric Advisors forecasts a slight drop in overall vacancy (30 basis points) and about 800,000 sq. ft. of positive absorption.

FOR TENANTS

- Large tenants will be challenged in finding top-quality space and will be forced to either renew or consider creative alternatives like splitting requirements between noncontiguous blocks or different buildings.
- Expect concessions to continue to fall across building class, with a sharper drop in prime (trophy) space.
- Tenants seeking standard Class A space will need to remain vigilant of distress in the market.

Multifamily Market Outlook

01

MULTIFAMILY HOUSING FUNDAMENTALS REMAIN STRONG

The Washington, D.C. multifamily market has remained resilient despite regional economic turmoil in 2025, with a 20-basis-point drop in the vacancy rate to 4.9%. While lower consumer sentiment remains challenging, a reduced construction pipeline and a more stable economic and demand outlook will benefit the Washington, D.C. multifamily market dynamics in 2026.

02

FINANCING AND MACROECONOMIC CONDITIONS PUSH DEMAND TO RENTAL UNITS

Persistently high mortgage rates have widened the delta between monthly mortgage and rental payments, substantially increasing overall demand for rental housing. Interest rates are projected to drop in 2026, but not enough to move the needle in the gap between mortgage and rental rates.

03

REDUCED NEW CONSTRUCTION SAFEGUARDS MARKET FUNDAMENTALS

Supply chain fragmentation, tariff policy and a construction labor shortage have put significant upward pressure on construction costs. Multifamily completions in Washington, D.C. have declined 4% in the trailing 12-month period and will drop to a seven-year low in 2026, aiding fundamentals for existing owners of multifamily properties. A likewise decline in expected construction starts means that these market dynamics will persist for several years, enhancing the appeal of some office-to-residential conversions.

04

INVESTMENT ACTIVITY INCREASES

With rents increasing, new construction decreasing and macroeconomic conditions improving, investment activity is expected to improve in 2026. Changes to local policy initiatives will increase the attractiveness of investment in Washington, D.C. This includes the Housing in Downtown Tax Abatement and the RENTAL Act, which, among other intended effects, will reform the Tenant Opportunity to Purchase Act and improve liquidity for owners of multifamily properties constructed in the past 15 years.

Key Takeaways

- The multifamily market will remain resilient in 2026 due to solid fundamentals, the cost of homeownership and limited new supply.
- Overall, new development will decrease in 2026, safeguarding market fundamentals for existing assets. This is a marked difference from Sun Belt markets where several years of new deliveries threaten gains in occupancy and rental rates.
- Changes to the regulatory environment will amplify the attractiveness of investment.
- The supply-and-demand imbalance, along with fewer regulations, will result in increased multifamily investment this year.
- Obsolete office buildings will continue to generate more opportunities for office-to-residential conversion when floor plans and physical structure are conducive. These projects cost less to build than tear-down/new construction.

Retail Market Outlook

01

MACROECONOMIC CONDITIONS ARE VARIED BUT NET POSITIVE

Despite the potential for reduced consumer confidence and spending, the retail market should benefit from growing office attendance and private-sector employment. Tourism also is expected to remain relatively strong.

02

OCCUPIERS SEEK MIXED-USE CENTERS AND FEWER, HIGH-QUALITY LOCATIONS

Mixed-use trade areas like City Center and Georgetown will remain strong, while some office-dominant downtown trade areas with a concentration of high-quality office product will offer improved conditions for storefront businesses serving daytime populations. As with national retail trends, macroeconomic conditions including elevated buildout costs, shifting labor dynamics and thinner margins will push tenants to a quality-over-quantity approach to location strategy of fewer, high-performing sites.

03

FLIGHT-TO-QUALITY TRENDS GROW

Flight-to-quality trends will continue in the retail market, favoring high-traffic residential neighborhoods and mixed-use centers with predictable foot traffic like that of the Shaw District. Trade areas with strong residential development like NoMa will also present opportunity for retailers.

04

LOW LEVELS OF NEW SUPPLY SAFEGUARD MARKET FUNDAMENTALS

Development of retail space is expected to remain low overall, safeguarding market fundamentals. And capital markets activity will favor neighborhood shopping centers with grocery anchors and other essential retailers.

Key Takeaways

FOR OWNERS

— Restaurant and shopping demand will remain strong in vibrant residential neighborhoods and mixed-use trade areas like Georgetown and City Center.

— Lack of new supply will safeguard market fundamentals. Rent and availability are projected to remain flat year-over-year for the District.

FOR TENANTS

— Downtown remains a risk, but core downtown micro-markets with clusters of high-quality office buildings are promising. These generally have higher occupancy and return-to-office rates than commodity office product.

— Residential neighborhoods with a concentration of new development also offer opportunity.

— Expect strong competition for high-quality locations and storefront spaces.

— A data-driven approach to evaluation of consumers and foot traffic will identify risks and opportunities in more affordable spaces and locales.

Contacts

Explore additional insights at
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Stephanie Jennings
Mid-Atlantic Research Director
stephanie.jennings@cbre.com

Ian Anderson
Senior Director of Research
ian.anderson@cbre.com

Erin Janacek
Research Manager
erin.janacek@cbre.com

Sam Toelke
Senior Research Analyst
sam.toelke@cbre.com

CBRE