

Washington DC

Office | Q1 2024 Market Report

Quarterly Snapshot

↑ Average Rent
\$55.21/SF

↑ Vacancy
20.4%

↓ Net Absorption
-317,700 SF

Occupier's Perspective

Trophy-quality office space throughout Washington D.C. continues to outperform the rest of the market. Vacancy rates in this asset class settled just under 15 percent to end the first quarter, compared to the broader market average of 20.9 percent.

Many tenants continue to right-size their footprint and consolidate operations, resulting in another quarter of negative absorption and increased vacancies. With consistent negative absorption, the landscape for tenants in the market is very favorable, leading to aggressive leasing terms and concession packages.

As interest rates remain elevated, landlords are feeling pressure to perform on loans and transact in the capital markets space. Several downtown office buildings have recently sold for a fraction of their previous purchase price, as asset values are in flux due to the unstable outlook of the office market.

The office market in the Washington D.C. area experienced heightened transaction velocity relative to the last quarter. Despite this, net absorption remained negative, leading to vacancy rates reaching just under 21 percent. Renewals made up over half of the leasing activity in first quarter, with the East End submarket landing two of the biggest transactions of the quarter, totaling over 500,000 square feet. Overall, the Central Business District and East End remained the most active submarkets in terms of leasing activity.

The first quarter of 2024 saw 1.7 million square feet worth of leasing volume, with 200,000 square feet concentrated in the trophy-quality buildings. Trophy-quality buildings continued to see tightening supply relative to other asset classes, as smaller footprint requirements help offset costs for tenants. With high construction costs, new development in the pipeline is the lowest in decades, which will help stabilize the supply of office space in the coming years.

Overall, the DC area had positive traction through this quarter and is adjusting to the new patterns of tenants right-sizing and the lasting impacts of the work-from-home environment. Market conditions will continue to trend in a tenant-favorable direction for the foreseeable future as vacancy levels remain elevated and landlords compete to attract occupiers.

Recent Transactions

Tenant	Size (SF)	Submarket	Type	Building
Washington Post	300,000 SF	East End	Renewal	Office
Finnegan, Henderson, Farabow, Garrett & Dunner	214,000 SF	East End	Renewal	Office
American Council of Life Insurers	28,000 SF	Capitol Hill	New Lease	Office

Submarket Movement

Vacancy Rate	QOQ Change	Direct Asking Rent (\$/SF)	Submarket
21.7%	▼	\$44.45	Uptown
15.2%	▲	\$50.58	Southwest
12.0%	▲	\$51.48	NoMa
24.2%	▲	\$53.69	West End
25.7%	▲	\$53.69	Georgetown
22.1%	▼	\$58.49	CBD
22.7%	▲	\$59.15	Capitol Riverfront
21.3%	▲	\$61.44	East End
23.2%	▼	\$63.94	Capitol Hill