

Key Performance Indicators



Tenant's Perspective

DC's office market is expected to remain heavily tenant-favorable for the foreseeable future. Landlord competition prior to coronavirus was strong, and this trend of generous concession packages (free rent >1.1 months/year of term, and TIAs over \$110/SF) will persist as demand slows and space availabilities remain plentiful.

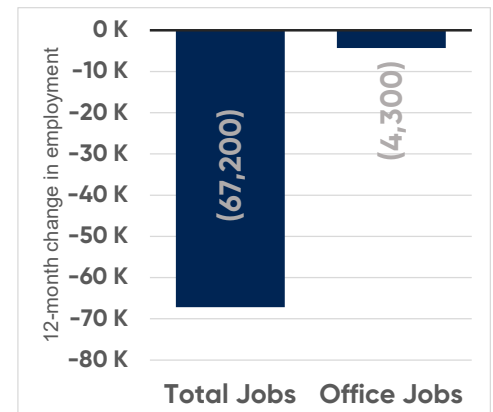
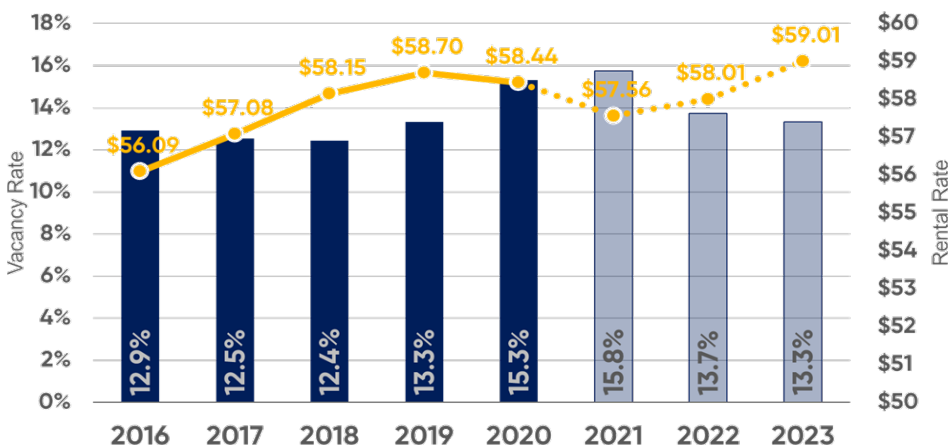
The long-term impacts of the coronavirus on workplace strategy and real estate decision making are still unknown, but it is likely to hamper DC's ability to tighten its market fundamentals over the next 12-months.

Market Overview

The District of Columbia's office market faced a significant shock in the second quarter of 2020. The coronavirus halted much of the region's business activity and forced many firms to restructure their workforce through layoffs, furloughs, and mandatory work from home orders. Pandemic-induced economic uncertainty caused leasing activity to freeze in Q2. Leasing volume fell 66% from year-ago levels and reached an all-time quarterly low. **With slow leasing expected in the coming quarters, DC's oversupplied office market could see its supply-demand imbalance grow wider.** Occupancy losses were recorded in Q2, measuring -18,376 SF and bringing year-to-date absorption to -87,071 SF. Vacancy, which reached 14.4% in Q2, will remain elevated in the near term as demand dries up. Tepid demand and a slowing construction cycle have resulted in downward-trending rents thus far in 2020. Overall asking rents in the District of Columbia fell \$0.66 over the last year to \$58.00/SF – their lowest levels since 2017.

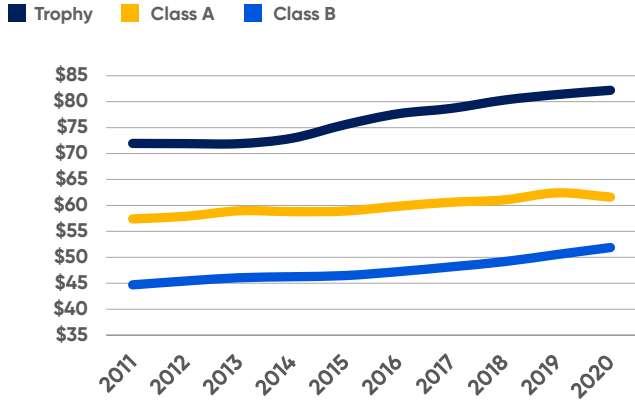
Labor Market Perspective

DC's labor pool contracted by 67,200 jobs over the last 12 months, however most losses were non-office-using jobs.

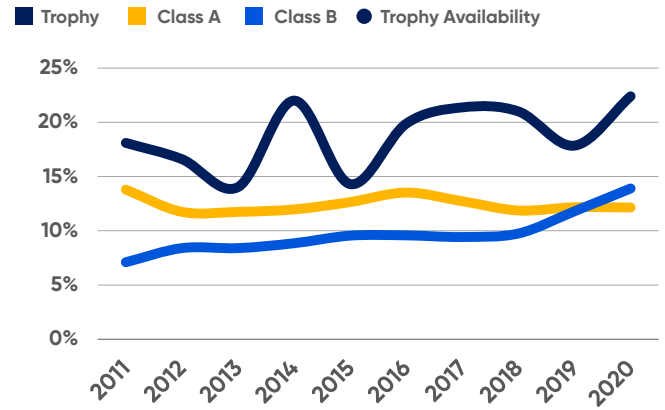


Q2 2020 Market Report

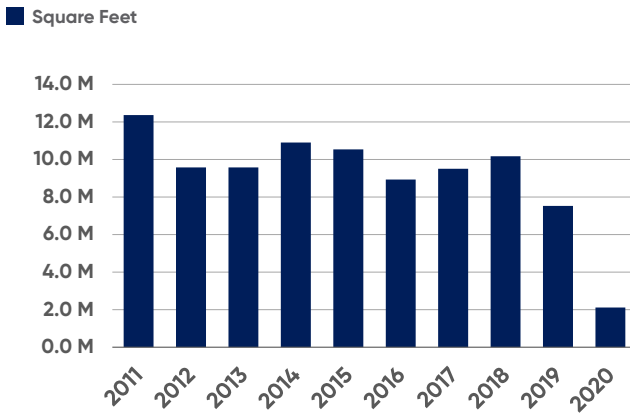
Asking Rents



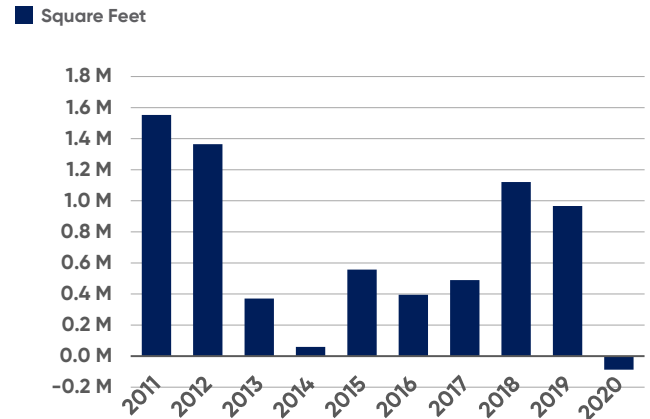
Average Vacancy Rate



Leasing Activity



Net Absorption



COVID Magnifies a Soft Downtown

Office market fundamentals in DC have been soft for several years. The growth of DC's non-core submarkets (Capitol Riverfront, Capitol Hill, Noma) has slowly syphoned demand from downtown. Traditionally, non-downtown markets have presented tenants with discounted office space, however this "rent gap" between core and non-core markets has been trimmed in recent years. Further leveling between these competing markets is possible given anticipated competition among downtown's landlords. **Through the first half of 2020, large relocations have greatly contracted occupancy in downtown, resulting in -622,733 SF in net absorption.** This has driven vacancy to 16.1% and has contributed record availability. Due to the strong market softness in the quarters before COVID-19, it can be expected that landlord competition will increase to compensate for the supply/demand imbalance of downtown.

Overview Headline



Q2 2020 Market Report

Q2 Top Leases

Tenant	Submarket	Address	Size	Type
Department of Education	Southwest	550 12th Street, SW	290,000	Renewal
Wiley	CBD	2050 M Street, NW	164,133	New
Palantir Technologies	Georgetown	1025 Thomas Jefferson Street, NW	104,777	Renewal
National Edowment for Democracy	East End	1201 Pennsylvania Avenue, NW	82,000	New
Berkeley Research Group	CBD	1800 M Street, NW	67,000	Renewal

Sublease Market

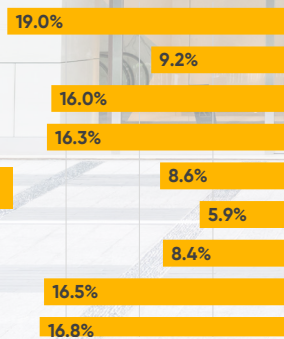
Recessionary Connection

Following past economic shocks, sublease listings increased sharply. For a variety of reasons, many firms used the recessionary uncertainty to list unused and unnecessary space.

Current Availability

Sublease availability has increased by 16% since March. This growth is on-par with the post-2001 and 2008 market crashes. Following those shocks, availability expansion continued for two years. While COVID-19 is not a traditional economic recession, sustained sublease expansion could present itself in the coming months.

Submarket Comparison



Submarket	Asking Rate
Capitol Hill	\$69.01
Capitol Riverfront	\$56.28
CBD	\$58.80
East End	\$59.45
Georgetown	\$44.70
NoMa	\$51.26
Southwest	\$54.24
Uptown	\$46.19
West End	\$54.26

Vacancy Rate

Asking Rate

Submarket Statistics

Submarket	Total Bldgs	Inventory	Sublet Available	Total Available	Total Vacant	Vacancy Rate	Net Absorption Q2	Net Absorption (YTD)	Class A Rent	Class B Rent	Total Direct Rent	Under Construction	SF Delivered YTD	Net New SF Delivered
CBD	209	36,771,622	928,886	8,435,510	5,879,614	16.0% ▲	(223,117)	(412,539)	\$73.08	\$53.96	\$58.80 ▼	591,153	921,129	441,646
East End	218	47,734,909	1,212,271	10,838,999	7,760,422	16.3% ▲	(174,447)	(210,194)	\$62.73	\$52.20	\$59.45 ▼	202,791	177,729	4,041
Downtown Core	427	84,506,531	2,141,157	19,274,509	13,640,036	16.1% ▲	(397,564)	(622,733)	\$64.71	\$53.27	\$59.17 ▼	793,944	1,098,858	445,687
Capitol Hill	39	5,678,514	66,338	1,637,964	1,076,268	19.0% ▲	66,984	161,408	\$71.49	\$52.56	\$69.01 ▲	226,841	-	-
Capitol Riverfront	12	2,842,064	87,961	823,019	261,229	9.2% ▼	32,475	121,116	\$56.28	n/a	\$56.28 ▲	557,948	124,928	124,928
Georgetown	42	3,270,469	31,561	443,858	280,975	8.6% ▼	(18,068)	(18,352)	\$51.64	\$39.94	\$44.70 ▼	-	-	-
NoMa	36	10,534,821	25,507	1,157,667	622,592	5.9% ▼	483,549	508,452	\$51.45	\$44.91	\$51.26 ▼	38,191	545,823	545,823
Southwest	33	11,636,017	49,319	1,582,521	975,728	8.4% ▼	(81,077)	(123,144)	\$57.37	\$46.53	\$54.24 ▲	866,203	-	-
Uptown	123	7,245,489	182,391	1,681,943	1,195,551	16.5% ▼	(75,828)	(50,032)	\$52.49	\$43.60	\$46.19 ▼	281,655	63,613	47,084
West End	20	3,274,791	173,687	726,514	550,965	16.8% ▼	(28,847)	(63,786)	\$55.66	\$53.78	\$54.26 ▲	-	-	-
District of Columbia	732	128,988,696	2,757,921	27,327,995	18,603,344	14.4% ▲	(18,376)	(87,071)	\$62.31	\$51.97	\$58.00 ▼	2,764,782	1,833,222	1,163,522