

District of Columbia

cresa

Q2 2021 Market Report

Key Performance Indicators



Tenant's Perspective

Measuring as the fifth consecutive quarter of year-over-year decline, average asking rates in the District of Columbia remained low, dropping \$0.27/SF from year-ago levels. Average asking rents are expected to stabilize to pre-pandemic levels by 2022.

As large blocks of space remain on the market, concession packages are expected to remain elevated through the fourth quarter of 2021.

Market Overview

As COVID cases slow with increased rates of vaccination, businesses have begun to return to the office. Despite the increased return of occupiers, market fundamentals continue to face shocks five quarters into the COVID-pandemic. With vacancy hitting an all-time high at 16.7%, a trend expected to continue, market fundamentals will continue to soften. District of Columbia continued a downward trend to \$57.73/SF, continuing negative growth, down \$0.27/SF from year-ago levels. Previously frozen in previous quarters, Leasing activity has begun picking up, though still lagged 20% behind pre-COVID levels. Though many continue to feel uncertainty and trepidation encompassing the market, decreasing COVID rates and increasing vaccinations continue to garner optimism surrounding return-to-work guidelines. As the Fall of 2021 approaches, this optimism, and office occupancies are expected to grow, bringing momentum and increasing market activity.

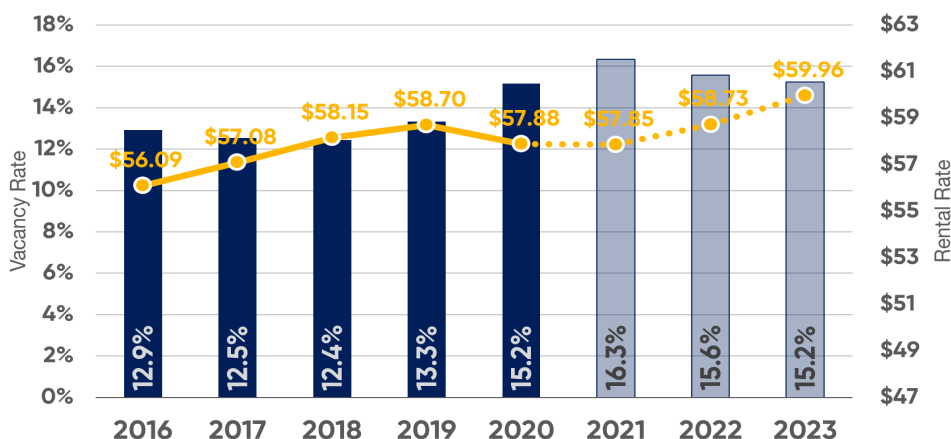
Washington Region
Office Occupancy

27.4%

*Kastle Systems, Return to the Office Barometer

Labor Market Perspective

DC's labor pool contracted by 25,500 jobs over the last 12 months, most losses were non-office-using jobs.



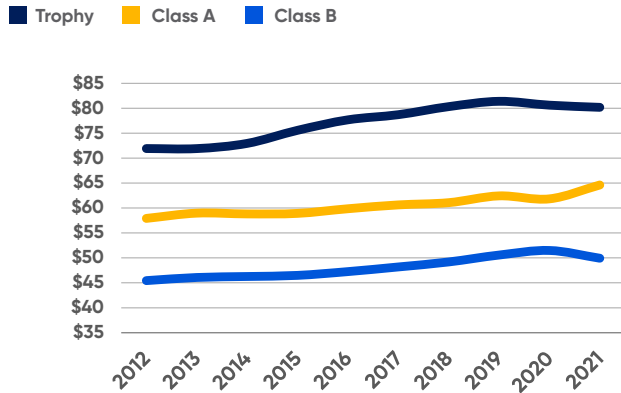
Vacancy Change: 1.7%
Since COVID

Average Rent Change: \$0.49/SF
Since COVID

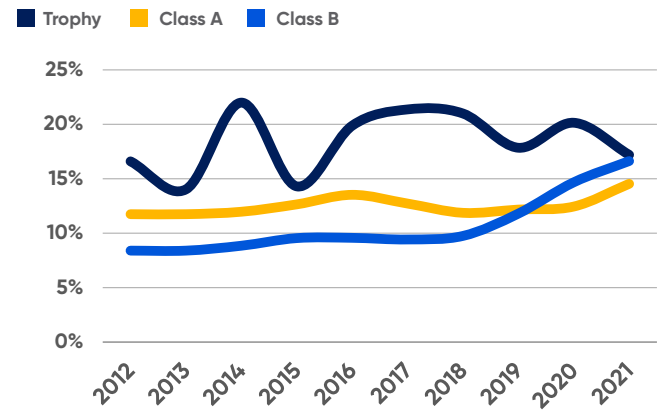
2,576,995 SF
Lost Occupancy since COVID

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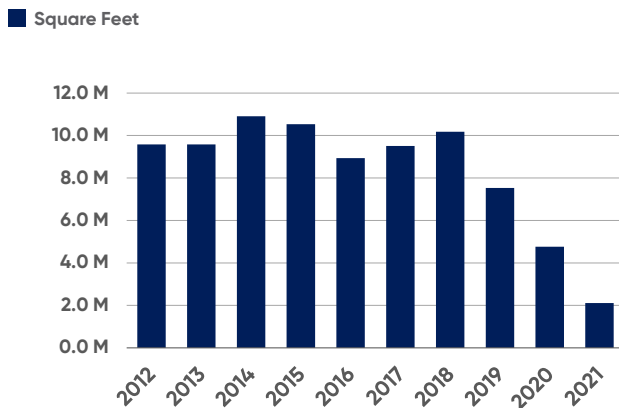
Average Asking Rents



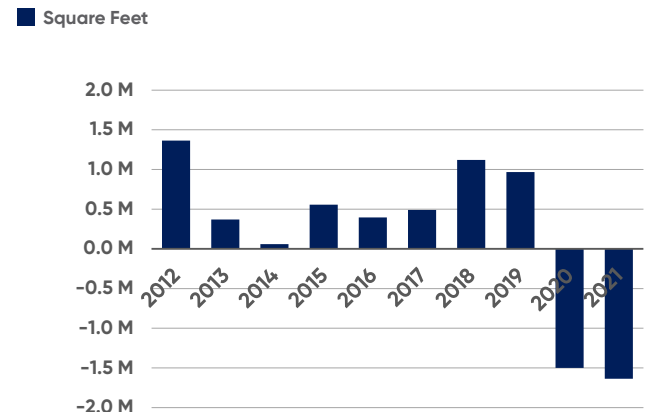
Average Vacancy Rate



Leasing Activity



Net Absorption



Return to Office and the Hybrid Workforce

The idea of a “one size fits all” solution has all but disappeared when discussing a hybrid workforce and workplace. As a result of the pandemic, employers are now more than ever considering flexible remote work policies as an integral part of their real estate strategy. As occupiers return to the workplace and life begins to “normalize,” new workplace strategies will be put in motion to better support businesses, a mobile way of working, people, and company culture.

Office-Centric Approach. Many occupiers have begun to offer increased flexibility, choice, and control to employees concerning where and how to work compared to pre-pandemic days. Though additional flexibility is provided, employers continue to set expectations and requirements that the office should continue to be a primary workplace during the workweek.

Virtual First Approach. Occupiers recognize remote work “works” as employees are engaged and happy and want to incorporate remote work as a large part of their culture. Despite the benefits, certain aspects such as creativity, collaboration, and mentoring are not replicated easily in a virtual setting. As such, occupiers look towards a workplace strategy to better support a virtual first culture and fosters collaboration and innovation.

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Q2 Top Leases

Tenant	Submarket	Address	Size	Type
Boston Consulting Group	East End	655 15th Street NW	97,779	New Lease
Enovational	East End	1400 L Street NW	95,619	New Lease
Patient Centered Outcomes Research Institute	CBD	1333 New Hampshire Avenue NW	96,092	New Lease
American Bankers Association	CBD	1333 New Hampshire Avenue NW	87,000	New Lease
Pacific Architects and Engineers (PAE)	East End	1099 14th Street NW	77,285	New Lease

Sublease Market

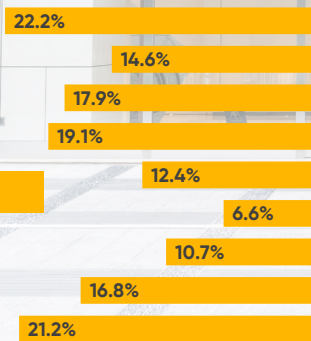
Recessionary Connection

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 47% since the beginning of COVID. This growth is on-par with the post-2001 and 2008 market crashes. Following those shocks, availability expansion continued for two years.

Submarket Comparison



Vacancy Rate

Capitol Hill	\$65.20
Capitol Riverfront	\$55.92
CBD	\$58.38
East End	\$60.44
Georgetown	\$45.87
NoMa	\$50.44
Southwest	\$50.36
Uptown	\$46.90
West End	\$54.79

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	36,714,358	907,381	9,845,908	6,590,042	17.9% ▲	(161,994)	(505,792)	\$69.10	\$51.54	\$58.38 ▼	584,515	-	-
East End	221	48,320,043	1,352,345	12,065,153	9,231,647	19.1% ▲	(139,705)	(328,058)	\$67.78	\$49.57	\$60.44 ▲	215,945	-	-
Downtown Core	430	85,034,401	2,259,726	21,911,061	15,821,689	18.6% ▲	(301,699)	(833,850)	\$68.23	\$50.76	\$59.51 ▼	800,460	-	-
Capitol Hill	36	5,133,763	161,612	1,781,253	1,137,522	22.2% ▲	19,129	(325,975)	\$66.66	\$51.97	\$65.20 ▼	214,500	-	-
Capitol Riverfront	13	3,028,765	146,668	994,303	39,114	14.6% ▲	(68,412)	(51,927)	\$55.92	N/A	\$55.92 ▼	457,663	227,948	227,948
Georgetown	42	3,276,120	92,783	803,650	407,596	12.4% ▲	(49,353)	(68,064)	\$53.54	\$40.77	\$45.87 ▼	-	-	-
NoMa	37	10,573,581	160,519	1,055,126	700,376	6.6% ▼	8,362	(64,093)	\$50.65	\$46.67	\$50.44 ▼	38,191	-	-
Southwest	34	11,663,345	10,586	1,721,312	1,247,119	10.7% ▲	(38,963)	(62,480)	\$51.81	\$47.05	\$50.36 ▼	639,203	-	-
Uptown	124	6,999,950	219,279	1,676,007	1,174,913	16.8% ▲	(38,719)	(159,665)	\$51.88	\$45.52	\$46.90 ▲	216,655	-	-
West End	21	3,333,213	193,363	865,430	707,591	21.2% ▲	(89,397)	(70,680)	\$58.66	\$50.07	\$54.79 ▼	-	-	-
District of Columbia	761	130,434,915	3,244,536	30,952,479	21,756,216	16.7% ▲	(559,052)	(1,636,734)	\$64.30	\$49.78	\$57.73 ▼	2,366,672	227,948	227,948