Q4 2024 Office Market Report
Washington, DC

Q4 2024
Market Overview

Quarterly Key Performance Indicators

Net Absorption	Direct Asking Rent	Vacancy
770,221 SF	**$61.34/SF**	**20.2%**

The Washington, DC office market showed signs of recovery in Q4 2024, recording positive net absorption of 770,221 square feet—the first quarterly gain since 2022—while reducing the overall vacancy rate 60 basis points to 20.2%. In a positive sign for overall demand, leasing volume reached a three-year high of 8.0 million square feet, with 2.2 million square feet leased in the fourth quarter alone. Law firms were the dominant sector, driving 41% of Q4 leasing activity. Notable transactions included Holland & Knight's renewal of 154,272 square feet at 800 17th Street NW in the CBD, Monumental Sports & Entertainment's 116,626-square-foot new lease at 616 H Street NW in the East End, and Millennium Challenge Corporation's 111,733-square-foot renewal at 1099 14th Street NW, also in the East End.

Rental rates across the market remained stable, with the overall average at $61.34 per square foot, representing an annual increase of 0.13% compared to year-end 2023. Trophy-class buildings continued to perform well, commanding an average of $83.38 per square foot, up 0.86% year-to-date. Class A rents averaged $63.93 per square foot, down 0.16% year-to-date. Meanwhile, Class B buildings experienced declines, with rents falling to $51.10 per square foot, a drop of 0.80% for the year. On the investment side, the sales market continued to rebound, with notable transactions underscoring demand for well-located assets. BG Ventures acquired 2101 L Street NW, a 384,000-square-foot property in the CBD, for $110.1 million ($286.72 per square foot).

Notable Regional Insights

Following Fannie Mae's downsizing announcement last quarter, law firm ArentFox Schiff has already leased 50% of the available space.

Q4 was the first quarter since 2022 to report positive absorption, signaling potential stablization in the market.

Full Service Rents by Class

Asset Class	Full Service Rent/ SF	Q-Q % Change	YTD % Change
Trophy	$83.38	0.87%	0.86%
Class A	$63.93	0.25%	-0.16%
Class B	$51.10	-0.53%	-0.80%
Overall	**$61.34**	**0.10%**	**0.13%**

Recent Lease Transactions

800 17th Street NW
Central Business District
Holland & Knight
154,272 SF

616 H Street NW
East End
Monumental Sports & Entertainment
116,626 SF

1099 14th Street NW
East End
Millennium Challenge Corporation
111,733 SF

Recent Sale Transactions

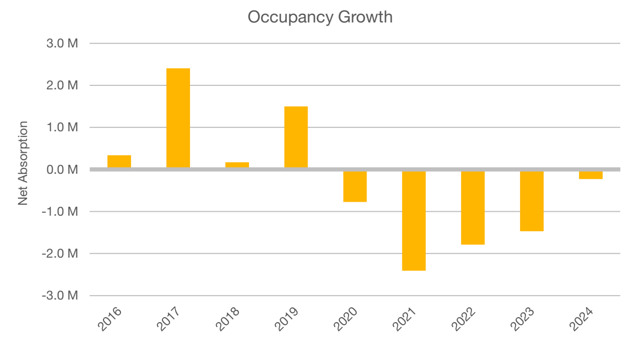
2101 L Street NW
Central Business District
Buyer: BG Ventures
384,000 SF **$110.1M ($286.72/SF)**

2001 Pennsylvania Avenue NW
East End
Buyer: George Washington University
161,000 SF **$35M ($217.39/SF)**

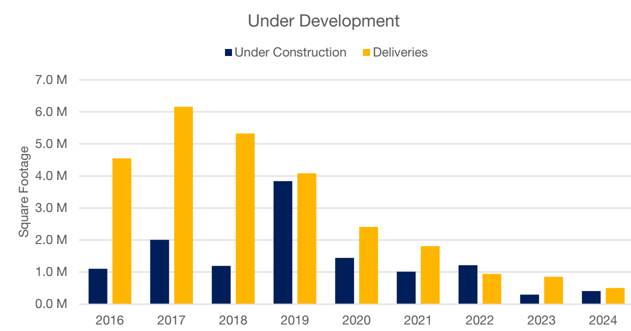
2001 L Street NW
Central Business District
Buyer: Melrose Solomon Enterprises
172,135 SF **$30.5M ($177.48/SF)**

Q4 2024
Market Data

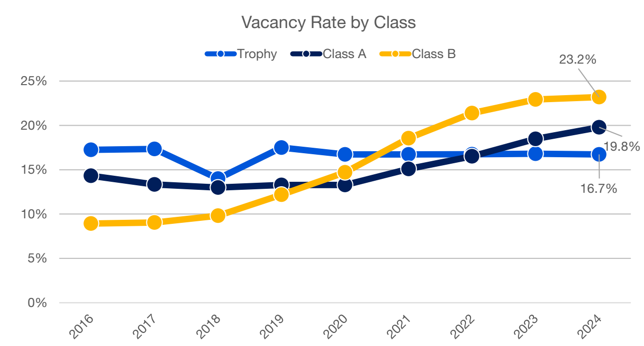
Occupancy Trends
The Washington, DC office market experienced a notable turnaround in Q4 2024, achieving 770K square feet of positive net absorption. This marks the first quarter of growth since Q4 2022. Year-to-date net absorption for 2024 landed at -228K square feet, reflecting signs of stabilization after years of significant negative occupancy growth. Trophy-class buildings continued to outperform, benefiting from sustained demand for premium office spaces. In Q4, these properties recorded 398,000 square feet of positive absorption, building on the 114,000 square feet absorbed in Q3. Class B properties also saw a strong recovery, with 252,000 square feet of positive absorption in Q4, reversing the 190,000 square feet of negative absorption reported in the previous quarter. The development pipeline remains at its lowest level in 20 years, with only one significant office delivery in 2024. This slowdown will continue to ease some of the pressure from rising inventory levels as the market continues to adapt to shifting tenant demand and evolving workplace dynamics.



Construction Snapshot
Following nearly a decade of consistent development, the construction pipeline in the DC market has leveled off significantly. Lack of organic tenant demand, coupled with escalating construction costs and broader economic challenges, are key factors contributing to the slowdown in office projects. Notably, while new trophy deliveries have attracted greater leasing activity compared to existing buildings, the decline in new product coming to market may have a ripple effect on lower-class buildings as tenants reassess their relocation needs. In fact, no new construction projects were completed in the fourth quarter of 2024, and only ~400,000 square feet remains under development—a drastic drop from the peak in 2017, when nearly six million square feet were under construction. Stonebridge and Rockefeller Group's 600 5th Street NW is currently the only project underway in Washington, DC. The redevelopment, 52% preleased to Crowell & Moring, is expected to be delivered in early 2026.



Market Vacancy
The flight-to-quality trend remains a defining feature of the Washington, D.C. office market, with trophy buildings consistently outperforming Class A and Class B properties. As of 2024, trophy buildings report a vacancy rate of 16.7%, significantly lower than Class A at 19.8% and Class B at 23.2%. This disparity highlights the strong demand for premium office spaces, as tenants prioritize high-quality, well-located buildings that meet modern workplace needs. The contrast between rising vacancies in Class A and Class B buildings versus declining rates in trophy properties, especially considering new construction has been centered around trophy offices, underscores the increasing demand for top-tier office space in the DC market.



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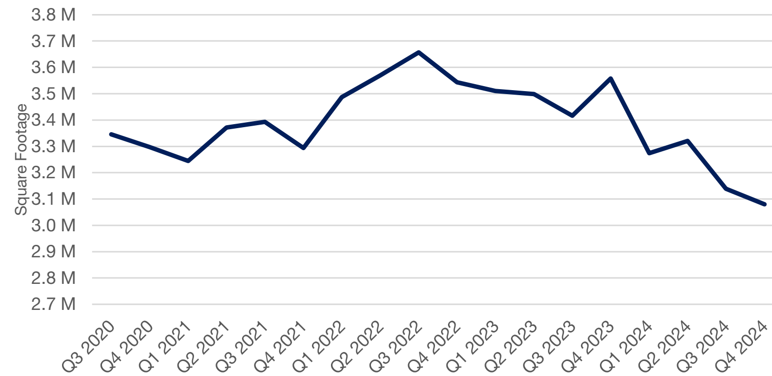
Sublease Report

The sublease market in Washington, DC continues to play a significant role in the overall office market landscape. Currently, there are approximately 297 sublease spaces available across the District, totaling nearly 3.1 million square feet. Roughly 48% of these spaces range from 5,000 to 20,000 square feet, offering a variety of flexible options for tenants with diverse space requirements. The East End and Central Business District (CBD) remain the dominant areas, accounting for 61% of the total available sublease space.

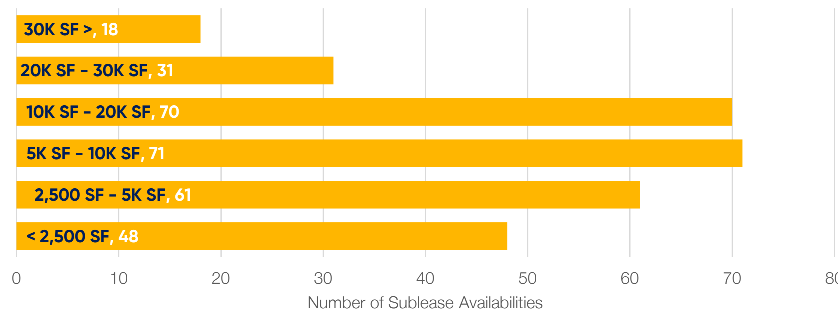
Pricing for sublease spaces varies, with 61% of the current offerings with listed asking rates set between $35.00 and $55.00 per square foot. The majority of subleases in the market are priced at a significant discount compared to direct spaces, putting further pressure on landlords as they compete for tenants in the market. The breakdown of lease term lengths further reflects the market's dynamics, with 75% of subleases offering terms of 5 years or less. These varied term lengths contribute to the flexibility tenants seek in the current market.

In terms of activity, JLL added four new sublease spaces totaling over 100,000 square feet in the CBD, East End, and Southwest submarkets. However, the overall sublease market saw a net reduction of approximately 210,000 square feet in the fourth quarter, indicating a tightening market for subleases that could alleviate pressures on the overall market.

Change in Sublease Availability by Year

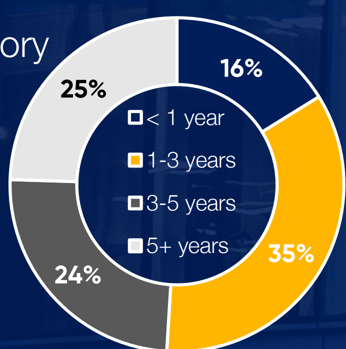


Distribution of Sublease Availabilities by SF



Sublease Inventory by Submarket

30% of all sublease availabilities listed as "Negotiable"



36.0%
Increase in Sublease Availability by SF since 2019

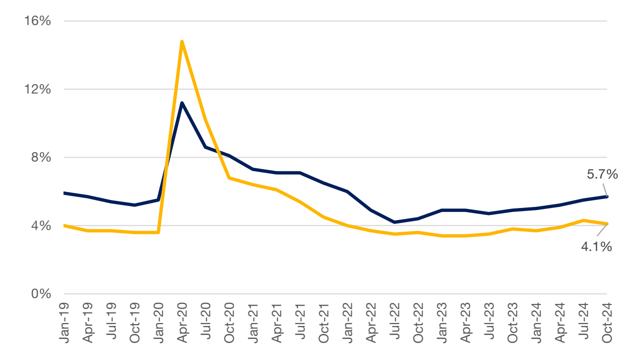
21.9
Average Months on Market

Q4 2024
Economic Outlook

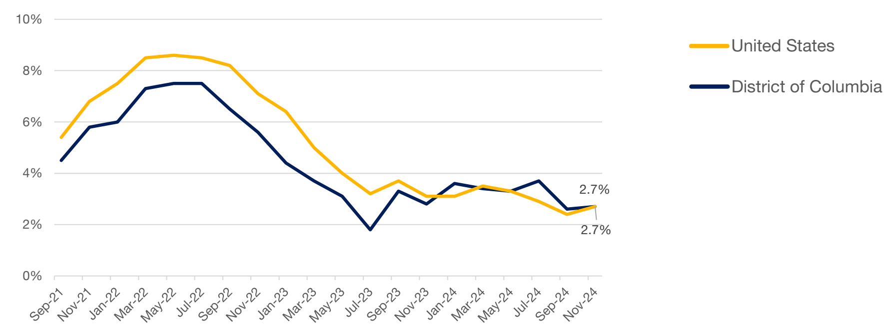
DC's unemployment rate of 5.7% in Q4 2024, down from the 10-year average of 6.1%, reflects a steady recovery in the local labor market. The federal labor force concentrated in the District remains robust, although lasting hybrid work policies enacted by the government continue to hinder overall office occupancy and foot traffic in surrounding downtown retail.

Nationally, the USA's unemployment rate of 4.1% similarly falls below its 10-year average of 4.7%. While this signals economic stability, inflation remains a concern, with DC's 12-month CPI change at 2.7%. With costs of goods higher, compounded by elevated labor and construction costs, companies are more prone to make cost-conscious decisions as it relates to their real estate needs.

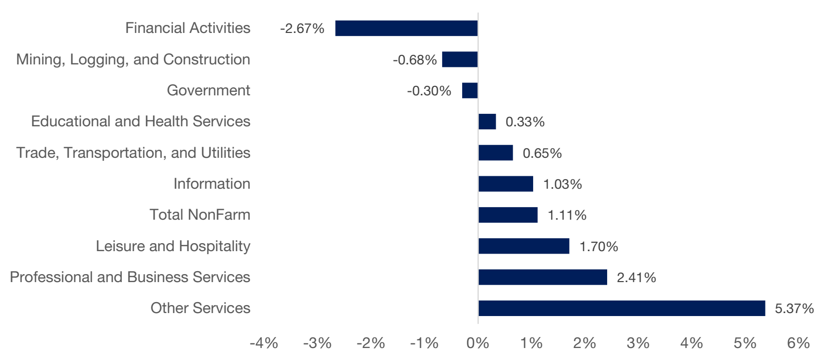
Unemployment Rate



Consumer Price Index, 12-Month % Change



Employment Growth by Industry, 12-Month % Change, October 2024



Leisure and Hospitality, Professional and Business Services, and Other Services have experienced significant job growth over the past year, contributing to a total nonfarm employment increase of 1.11%. On the other hand, sectors like Financial Activities, Mining, Logging, Construction, and Government saw job losses. The growth in the professional and business services sector has been driven by factors such as increased demand for consulting, legal, IT, and financial services, particularly given the proximity to federal agencies and the expansion of the tech and cybersecurity industries in the region. This sector's performance is a key positive indicator for the city's economy, showcasing its ongoing diversification and resilience in response to evolving business needs. As the new administration takes place, there is expected to be further pressure on the government job sector amidst the push to increase efficiency across government agencies.

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Submarket Statistics - All Classes

Submarket	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
CBD	190	38,310,833	680,661	10,398,933	21.3%	22.2%	139,622	-	334,000	$59.54
East End	201	48,244,977	1,227,266	14,020,976	19.1%	20.6%	349,894	400,000	-	$63.98
West End	21	3,380,643	258,983	920,379	16.8%	23.7%	(2,376)	-	-	$57.82
Georgetown	26	2,957,151	58,178	884,735	25.6%	25.6%	(15,010)	-	-	$50.75
Capitol Hill	30	5,515,362	95,494	1,509,093	23.9%	24.3%	18,151	-	-	$75.80
Capitol Riverfront	13	3,415,817	282,278	1,019,023	19.3%	21.1%	40,773	-	-	$59.01
NoMa	35	10,391,849	178,591	1,825,016	10.7%	11.3%	126,426	-	32,251	$53.21
Uptown	82	7,557,134	133,490	1,161,660	20.8%	21.6%	78,700	-	41,000	$44.62
Southwest	37	13,057,179	92,272	2,046,322	14.9%	15.3%	34,041	-	-	$49.53
Overall	635	132,830,945	3,007,213	33,786,137	19.1%	20.2%	770,221	400,000	407,251	$61.34

Market Statistics by Class

Class	Total Bldgs	Inventory (SF)	Sublet Available (SF)	Total Available (SF)	Direct Vacancy Rate	Overall Vacancy Rate	Net Absorption Current (SF)	Under Construction	Deliveries YTD (SF)	Avg Asking Rental Rate (FSG)
Trophy	48	16,253,689	170,322	3,216,940	14.7%	15.0%	398,239	400,000	334,000	$83.38
Class A	263	72,860,536	2,300,623	19,229,783	18.1%	19.8%	119,852	-	73,251	$63.93
Class B	324	43,716,720	536,268	11,339,414	22.2%	22.9%	252,130	-	-	$51.10

*The information contained in this report references Trophy, Class A, and Class B office properties 20,000 square feet or larger (excluding owner-occupied) located in the submarkets shown.

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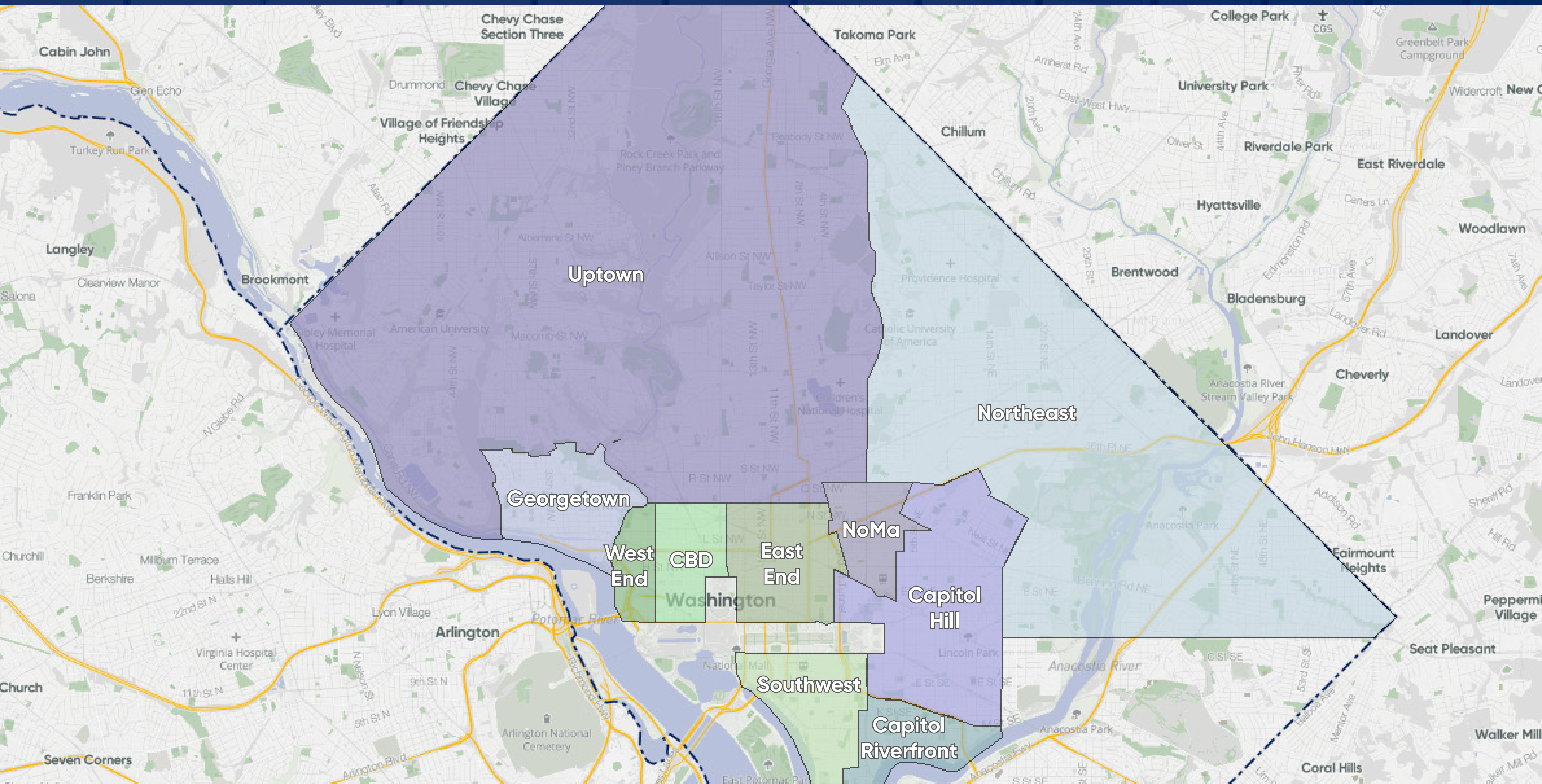

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