Market Posts Occupancy Gain and Strong Leasing Volume to Close 2024

▼ 22.5%
Vacancy Rate

▲ 324,174
SF Net Absorption

▶ 398,134
SF Under Construction

▶ $59.13
Average Gross Asking Rate

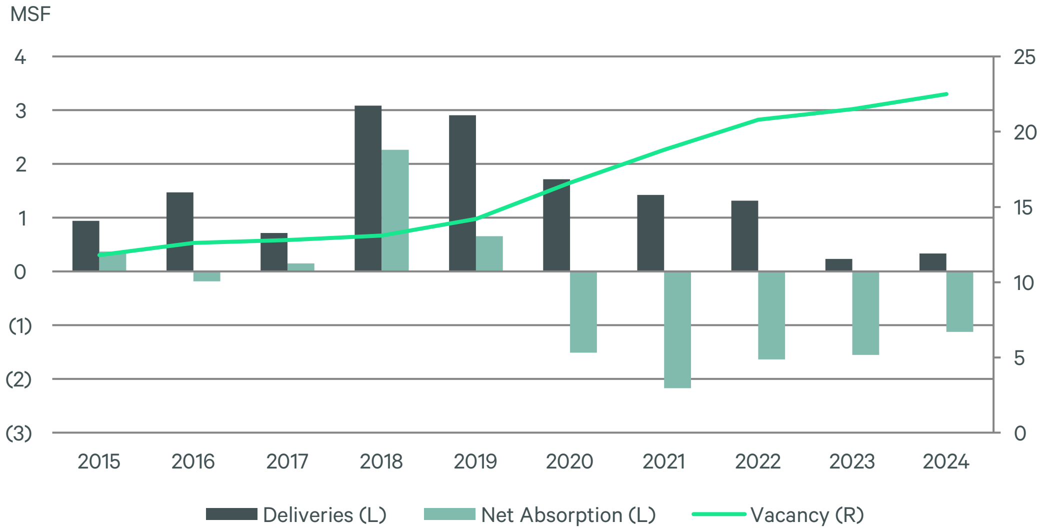
Note: Arrows indicate change from previous quarter.

Office vacancy dropped 20 basis points to 22.5% during the fourth quarter, reversing a trend of occupancy loss from the first three quarters of the year and marking the first quarter of positive absorption since Q1 2022. Two major drivers of occupancy gain were the US Agency for Global Media's relocation from federally-owned space in Southwest D.C. to leased space at 1875 Pennsylvania Avenue NW, and Monumental Sports & Entertainment's 120,000 sq. ft. expansion at Gallery Place.

Lease volume hit a three-year high in 2024 at 8.0 million sq. ft, with 2.2 million sq. ft. leased during the fourth quarter. Law firms drove activity at the end of the year, accounting for 41% of Q4 lease volume. Activity throughout the year reflected the city's typical tenant mix, with government tenants leasing the highest volume, followed by law firms, business and financial services, and nonprofits.

Washington, DC's private sector occupiers continue to exhibit a flight-to-quality. Trophy and Class A+ buildings account for just 23% of the city's inventory but have captured 59% of all private sector relocation volume since 2020, a figure that grows to 90% when considering relocations larger than 50,000 sq. ft. Consistent tenant demand for high-quality space paired with supply constraints at the top of the market will continue to boost fundamentals in the Trophy and Class A+ segments.

FIGURE 1: Historical Supply & Demand Dynamics



Source: CBRE

Sector Snapshot

Legal

Law firm leasing accelerated during the fourth quarter, totaling 41% of quarterly lease volume. Five of the seven largest law firm transactions during the quarter were relocations, including ArentFox's 120,000 sq. ft. relocation to Midtown Center, Troutman's 70,611 sq. ft. lease for the top two floors at 1001 Pennsylvania Avenue NW, and Milbank's two-floor lease at 1101 New York Avenue NW. Two-thirds of the law firms that signed leases in 2024 had a positive or neutral effect on the market, though a small number of contractions continue to outweigh this incremental growth, driving overall occupancy trends.

Business and Financial Services

Business and financial services firms accounted for 17% of the city's lease volume in 2024. The sector's largest 2024 lease was Fannie Mae's 341,000 sq. ft. renewal at Midtown Center, where the firm recommitted to its headquarters through 2045. Most notably in Q4, Alvarez & Marsal renewed and expanded at Metropolitan Square for 61,100 sq. ft, doubling the firm's footprint.

Government

The government led all sectors in leasing in 2024, capturing 34% of all activity. The largest government lease during the fourth quarter was the United States Agency for Global Media's 284,000 sq. ft. full-building lease at 1875 Pennsylvania Avenue NW, a relocation from owned space. The federal government remains the District's largest occupier, though persistent telework will continue to put downward pressure on the government's leased footprint.

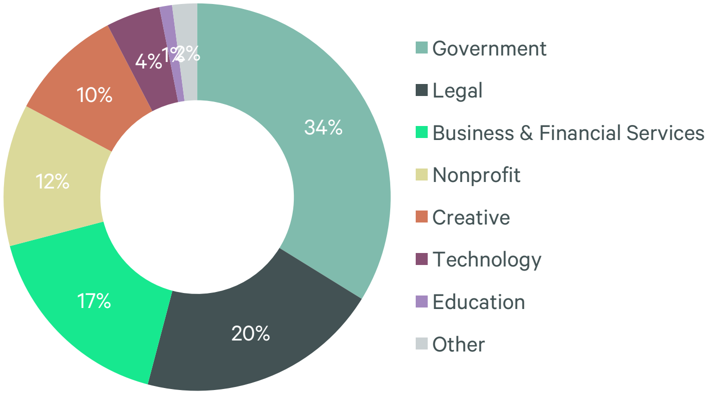
FIGURE 2: Select Notable Q4 2024 Lease Transactions

Tenant	Industry	Address	Submarket	SF	Lease Type	Market Effect
United States Agency for Global Media*	Government	1875 Pennsylvania Ave NW	CBD	283,456	New Lease	Growth
ArentFox Schiff	Legal	1100 15th St NW	CBD	120,000	New Lease	Contraction
Monumental Sports & Entertainment	Media	616 H St NW	East End	120,000	New Lease	Growth
Millennium Challenge Corporation	Government	1099 14th St NW	East End	83,105	Renewal	Contraction
Troutman Pepper	Legal	1001 Pennsylvania Ave NW	East End	70,611	New Lease	Contraction
Milbank	Legal	1101 New York Ave NW	East End	64,664	New Lease	Growth
Alvarez & Marsal	Business & Financial Services	655 15th St NW	East End	61,100	Renewal	Growth
Quinn Emanuel	Legal	555 13th St NW	East End	57,269	New Sublease	Contraction
Nelson Mullins	Legal	901 15th St NW	East End	48,500	New Lease	Contraction
Nixon Peabody	Legal	799 9th St NW	East End	43,710	Renewal	Contraction

*Represents growth for the leased office market.

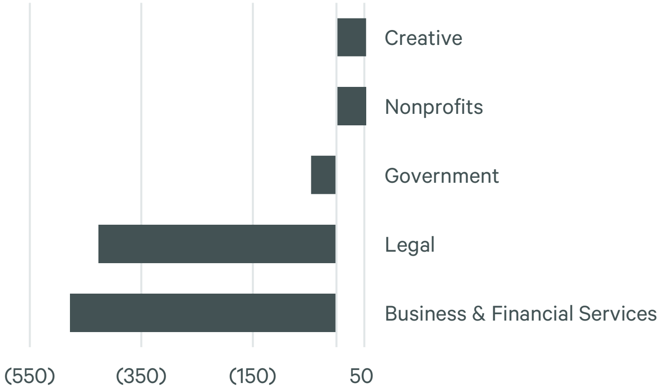
Source: CBRE

FIGURE 3: 2024 Gross Leasing by Sector (Share by SF)



Source: CBRE

FIGURE 4: 2024 Net Absorption by Sector (SF, 000's)



Source: CBRE

Development Activity

Stonebridge and Rockefeller Group's 600 5th Street NW is the only building underway in Washington, DC. The redevelopment is 52% preleased to Crowell & Moring and is expected to deliver in early 2026.

At the other end of the market, further value declines have made redevelopment projects more viable. There are currently 9 buildings being redeveloped from office to alternative use, with 21 additional projects in the planning stage.

Pricing

Asking rents remain flat at $59.13 per sq. ft. per annum on a full-service basis. Rent abatement also remained flat at 22 months for a 12-year term, though tenant improvement allowances saw a slight pullback in Q4, decreasing to $137 per sq. ft. on a 12-year lease term, across all asset classes. Several large Trophy deals drove the decrease in overall TI, reflecting a tightening at the top of the market.

Distress

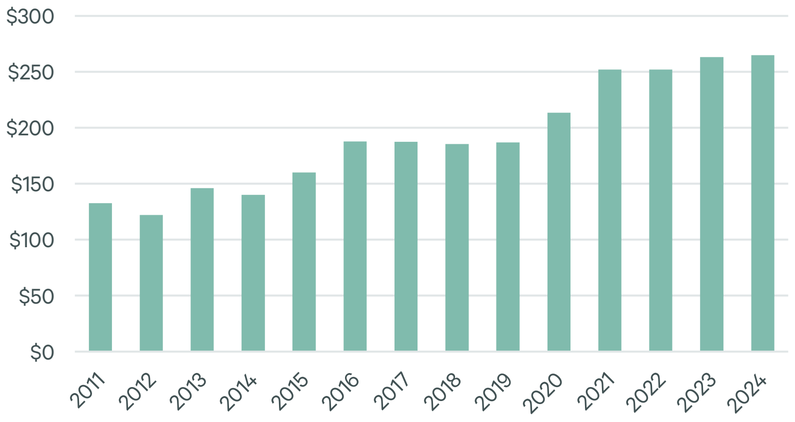
Distress in the office market continues, with 25 buildings going back to lenders in 2024 and 7 additional foreclosures during the fourth quarter. This number is expected to grow in 2025 as owners of older, high-vacancy office buildings struggle to refinance existing loans ahead of looming maturities. On average, buildings that have gone back to lenders in 2024 are 49 years old, with 50% vacancy at time of foreclosure, indicating that distress is overwhelmingly concentrated in commodity space.

FIGURE 5: Development Pipeline – Under Construction

Expected Delivery	Address	Submarket	SF	Preleased (%)	Developer(s)
2026	600 5th St NW	East End	398,134	52%	Stonebridge + Rockefeller Group

Source: CBRE

FIGURE 6: Total Concession Packages



*Analysis includes non-GSA leases sized 10,000 SF+ in the CBD, East End and Capitol Hill. Concessions weighted by SF and normalized for 12-year term.

Source: CBRE

FIGURE 7: Asking Rent Changes by Asset Class

Asset Class	Gross Rent Per SF	Quarter-over-Quarter Change
Trophy	$89.84	-1.6%
Class A	$60.56	+0.8%
Class B	$48.40	-0.5%
Overall	$59.09	-+0.1%

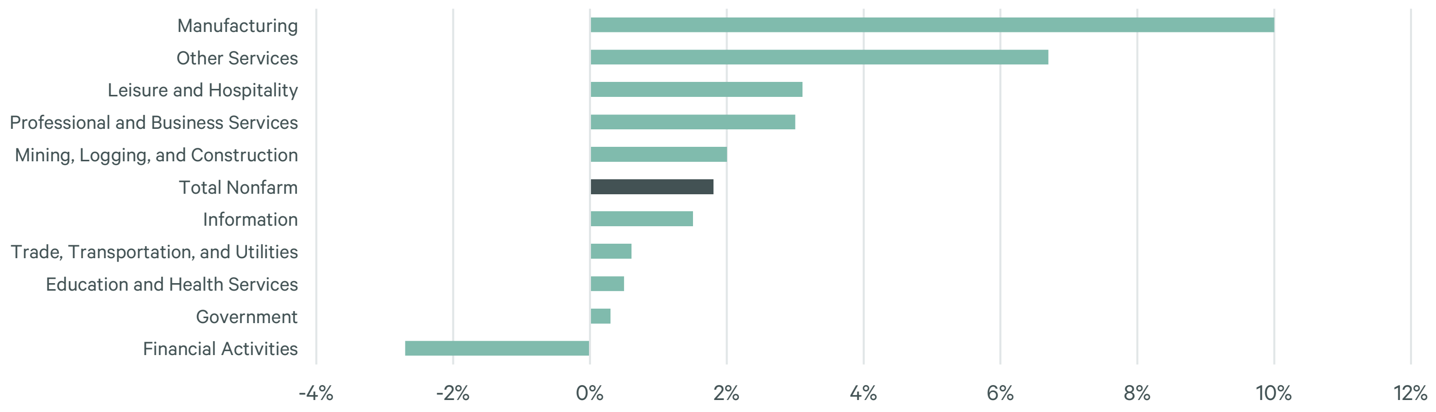
Source: CBRE

Economic Outlook

The U.S. economy continues to exceed expectations. Much of this is due to a sturdy consumer who is enjoying increased household wealth, real income growth, and a resilient labor market. Consequently, CBRE is revising its outlook upward for 2025 annual average GDP growth by 60 basis points to 2.3%.

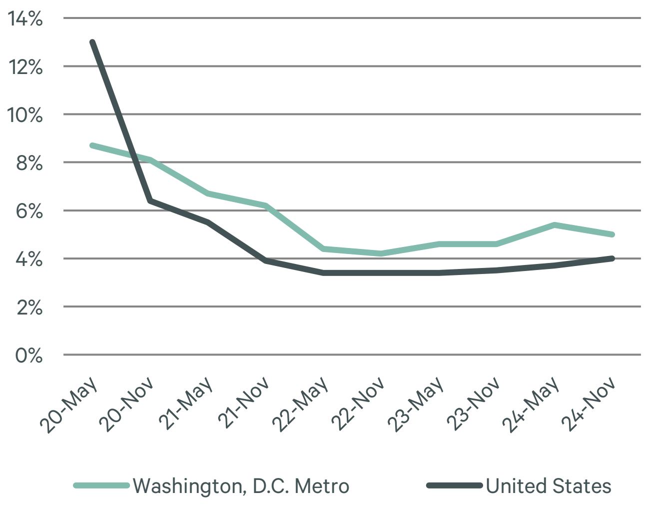
Typically, sturdy economic growth alongside Fed rate cuts would be rocket fuel for commercial real estate (CRE) performance. The catch is capital markets have grown skeptical of just how low rates will go in 2025. The mix of sticky core inflation and future policy concerns are putting upward pressure on long-term rates. Nevertheless, real estate capital markets have made good progress in recent quarters. Lending spreads are tightening, and credit issuance is up. Lending conditions are easing a bit as multifamily LTVs are trending slightly upward. Stronger debt markets and balanced and/or recovering space market fundamentals should translate into a noticeable uptick in investment during the next several quarters.

FIGURE 8: Employment Growth by Industry, 12-Month Percent Change



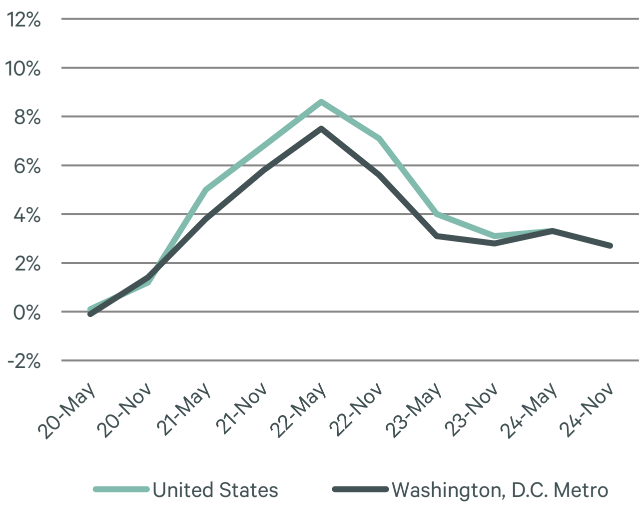
Source: BLS

FIGURE 9: Unemployment Rate



Source: BLS

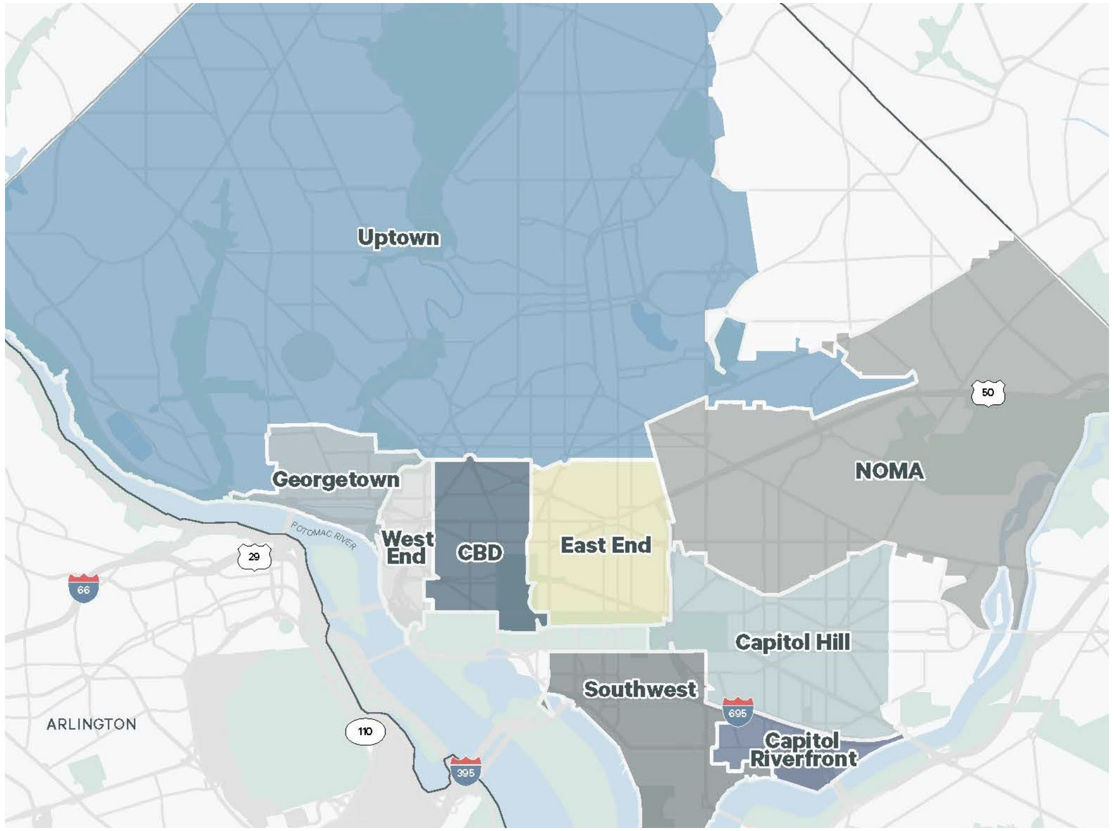
FIGURE 10: Consumer Price Index, 12-Month Percent Change



Source: BLS

FIGURE 11: Key Market Statistics

	Number of Buildings	Inventory (SF)	Overall Vacancy Rate (%)	Q4 2024 Net Absorption (SF)	2024 YTD Net Absorption (SF)	Gross Asking Rent ($/SF)	Under Construction (SF)
Capitol Hill	27	4,913,475	24.8	45,425	(50,399)	80.63	-
Capitol Riverfront	14	3,311,678	28.1	25,683	(154,817)	58.94	-
CBD	217	40,043,825	24.5	74,370	(789,284)	60.06	-
East End	193	42,955,192	24.0	109,654	155,540	59.75	398,134
Georgetown	21	2,508,998	32.4	2,013	22,882	54.63	-
NoMA	45	12,321,592	16.4	(12,548)	(273,075)	51.78	-
Southwest	35	11,832,111	13.3	5,238	(45,556)	51.69	-
Uptown	63	4,499,743	18.3	42,720	34,025	45.34	-
West End	16	2,687,653	20.9	31,619	(24,206)	53.77	-
Trophy	47	13,941,160	15.3	22,116	(268,049)	89.85	398,134
Class A	299	78,558,723	22.3	221,014	(352,298)	60.10	-
Class A+*	47	14,713,549	22.5	13,056	307,220	72.57	-
Class B	241	29,605,254	25.5	99,472	(508,927)	48.42	-
Class C	44	2,969,130	28.1	(18,428)	4,384	47.23	-
Overall	631	125,074,267	22.5	324,174	(1,124,890)	59.13	398,134



Source: CBRE

*Buildings achieving top 25% of taking rents, many recently renovated

CBRE Mid-Atlantic Research began using a proprietary database for office properties in mid-2024. Beginning Q3 2024, statistics and trends reported in previous reports likely changed due to our revised data methodologies. The information contained in this report references office properties 20,000 square feet or larger (excluding owner-occupied) located in submarkets shown on the above map.

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