



## DISTRICT OF COLUMBIA 2Q16 OFFICE MARKET

### POSITIVE ABSORPTION REFLECTS INCREASED LEASING ACTIVITY

The District of Columbia's office market gained modest momentum during the second quarter of 2016, but tenants continued to have market leverage. At the end of the second quarter of 2016, the District's overall vacancy rate stands at 11.4%. Net absorption measured 330,921 square feet during second-quarter 2016, compared with 145,611 square feet during second-quarter 2015. Asking rental rates edged higher, to \$52.00/SF from \$51.84/SF in the prior quarter.

The recession of 2008 considerably influenced the market's fundamentals, and the statistics for second quarter 2016 echo the market's "new normal." Since 2009, the vacancy rate has fluctuated between 10% and 12%. The average asking rent has remained between \$49.00/SF and \$52.00/SF since 2013, with the second quarter's asking rent on the higher end of the spectrum.

The most activity continues to occur with properties at the top and bottom of the market. Those in the middle were not as strong.

- Companies able to pay higher rent are attracted to the Trophy and high Class A product, in order to occupy newer construction with an assortment of amenities. The Class C and lower Class B properties are competitive because they appeal to budget-conscious tenants that may not have the same requirements for amenities and location as other companies.
- Commodity Class A and Class B buildings—usually mid-block, lacking amenities, and farther from Metrorail—have been slow to build momentum. In order to appeal to different types of tenants than they usually pursue, commodity properties have to adjust their marketing techniques and incentives more creatively to build interest.

#### Densification Remains Present in the Market

Densification, which happens when tenants reduce the ratio of square feet leased per employee, consequently leads to the adjustment of floor plans to create an open workplace environment. This began to occur more regularly approximately four years ago, as companies made efforts to reduce real estate expenses. This trend is projected to continue over the next few years, since many industries believe an open floor plan facilitates their corporate culture of impromptu meetings and unexpected brainstorming sessions. However, some companies that downsized are finding that the open floor plan is not as advantageous to worker productivity as originally believed. Please read the NGKF white paper published in February 2016 titled *The Impact of Office Space on Employee Productivity and Implications for Occupancy Costs*, which explores the variations in productivity that may be linked to an open floor plan. It can be found on the [Thought Leadership page](#) at ngkf.com.

#### Current Conditions

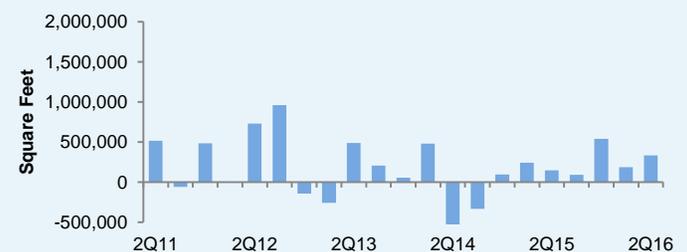
- Top and bottom of market gaining traction, while commodity buildings struggle to increase occupancy.
- Technology-focused shared office providers continue to attract tenants and act as a source of strength for the leasing market.
- As owners target high-end tenants, renovations in the CBD and East End continue. However, renovating Class B to commodity Class A is becoming less appealing.

#### Market Analysis

##### Asking Rent and Vacancy Rate



##### Net Absorption



#### Market Summary

	Current Quarter	Prior Quarter	Year Ago Period	24-Month Forecast
Total Inventory (SF)	124.2 M	124.0 M	123.9 M	↑
Vacancy Rate	11.4%	11.4%	11.4%	↓
Quarterly Net Absorption (SF)	330,921	185,625	145,611	↔
Average Asking Rent	\$52.00	\$51.84	\$51.26	↑
Under Construction (SF)	2.9 M	2.8 M	2.0 M	↑
Deliveries (SF)	200,000	263,623	0	↔



## DISTRICT OF COLUMBIA 2Q16 OFFICE MARKET

### Class A and Trophy Product Maintain Strong Performance

The Trophy/Class A market consistently outperforms the overall market in the District of Columbia. There has been an extensive history of superior performance, as explored in our June 2015 white paper entitled *The Success of Best-in-Class Properties in Washington's Bifurcated Office Market*. This study can be found on the [Thought Leadership page](#) at ngkf.com.

The District's Class A vacancy rate remained stable at 12.5% in the second quarter, as the DC Department on Disability Services relocated within the market from 1125 15th Street NW in the East End to 250 E Street NW in Southwest, occupying 102,000 square feet. Net absorption of Class A space during the first quarter was 333,293 square feet; Class B and Class C occupancy was virtually unchanged. While still outperforming other classes, Class A space experienced a slight decrease in its asking rental rate, to \$56.72/SF. Approximately 2.9 million square feet of new Class A space is under construction.

The Trophy portion of the Class A market remains strong. At the end of the first quarter, the Trophy vacancy rate was 7.1%, while asking rental rates remained above \$71.00/SF. These properties attract tenants by providing the high-end amenities tenants are demanding—usually a roof deck, state-of-the-art fitness center and concierge—while often accommodating the desire for open floor plans.

### Shared Office Providers Are Filling a Market Niche

Two of the shared office space providers continuing to expand in the District of Columbia are WeWork and MakeOffices (formerly Uber Office), which have signed multiple new leases and have additional deals

pending in the market. These expansions have produced a net new growth segment for the market since they first opened locations two years ago. These companies permit small tech startups and entrepreneurs to lease space without committing to a larger lease than they might need or be able to afford. Someone who would alternatively work in a home office or only need one or two desks for their local employees is the usual type of tenant that these companies try to attract. Office spaces like WeWork and MakeOffices are fulfilling a need for these tenants and are projected to expand even further within the District in the next two years.

### CBD and East End Submarkets Experience the Most Construction Activity

During the second quarter, one property delivered in the District of Columbia: 660 North Capitol Street NW, located in NoMa. National League of Cities preleased approximately 81,000 square feet of this 200,000 square foot property. One renovation was completed at 2001 M Street NW in the Central Business District (CBD). The 261,000 square foot building was 20.2% pre-leased by Bracewell. The delivery of 660 North Capitol Street NW, in addition to three smaller properties, brings the total deliveries of new construction to 463,623 square feet so far in 2016.

The pipeline of new supply totals close to 4.1 million square feet, with 2.9 million square feet of new space and 1.2 million square feet of renovation projects. Five of the 15 active projects are in the CBD, with renovations accounting for four of them.

### Recent Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
WeWork	655 15th Street NW	East End	Direct Lease	117,000
Federal Bureau of Prisons	370 L'Enfant Promenade SW	Southwest	Direct Lease	115,341
Cleary, Gottlieb, Steen, & Hamilton	2112 Pennsylvania Avenue NW	CBD	Direct Lease	114,597
Ernst & Young	1101 New York Avenue NW	East End	Renewal	107,825
Epstein Becker Green	1227 25th Street NW	West End	Renewal	54,293

### Recent Sales Transactions

Building	Submarket	Sale Price	Price/SF	Square Feet
1615 L Street NW	CBD	\$229,000,000	\$549	417,273
733 10th Street NW	East End	\$180,000,000	\$1,065	169,038
1400 L Street NW	East End	\$70,000,000	\$407	172,000
1155 15th Street NW	East End	\$34,870,000	\$370	94,153
1808 Eye Street NW	CBD	\$17,800,000	\$547	32,529



## DISTRICT OF COLUMBIA 2Q16 OFFICE MARKET OUTLOOK

The five CBD renovation projects added to the pipeline extend construction activity into 2019. Many owners are resorting to the renovation of obsolete or older buildings, since there is a limited selection of vacant land in the core submarkets of the CBD and East End, and since tenants are often targeting newer space. Of note, renovating Class B product into commodity Class A is losing its luster, as the extremes of the market (Trophy and Class B/Class C) are experiencing stronger demand than the middle of the market.

Renovations of 1800 K Street NW, a 251,000-square-foot building, are expected to be finished in third-quarter 2016. Multiple existing tenants will remain in the building. Four additional projects representing 1.5 million square feet have signed pre-leases and will begin construction over the next six months.

### Class B Asset Represents Largest Sale of the Quarter

The East End saw the largest sale of the second quarter by total sale price, as 1400 L Street NW sold for \$70.0 million, or \$407/SF, to The Meridian Group. The Class B property is 172,000 square feet and was fully leased at the time of sale. It is within walking distance to multiple Metrorail stations. The building amenities include a fitness center and concierge, which will help to retain and attract new tenants.

The largest sale based on price per square foot was 1517 Connecticut Avenue NW, which was sold for \$6.5 million, or \$776/SF, to Wiley Rein LLP. This property is 8,379 square feet and is located in the Central Business District near Dupont Circle. The location is within walking distance of the Dupont Circle Metro Station and has ground-floor retail. At the time of sale, the building was fully leased. The surrounding area offers retail and commercial amenities to the tenants, as does the building itself.

### District of Columbia Outlook

The District of Columbia's office market will remain in the tenants' favor over the next 12 to 24 months, even with Class A and Trophy rents increasing and assets largely in favor with investors. Demand will remain modest, while companies will continue to be careful with expenditures and await more budget certainty from the federal government, moving into and beyond the 2016 election.

For additional information on the Washington metropolitan area economy and office market outlook, please visit the [Washington Metropolitan Area Research Reports](#) page at ngkf.com.

### Market Statistics By Class

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	2Q16 Absorption (SF)	YTD 2016 Absorption (SF)
Class A	76,423,674	11.7%	12.5%	346,451	498,653	282,106	333,293	573,014
Class B	40,968,451	9.3%	10.0%	147,507	-737,573	737,788	-17,071	-72,037
Class C	6,763,644	7.1%	7.2%	-10,916	-102,025	-1,100	14,699	9,267
<b>District of Columbia</b>	<b>124,155,769</b>	<b>10.7%</b>	<b>11.4%</b>	<b>483,042</b>	<b>-340,945</b>	<b>1,018,794</b>	<b>330,921</b>	<b>510,244</b>

### Market Statistics By Class

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q16 Deliveries (SF)	YTD 2016 Deliveries (SF)	Under Construction (SF)
Class A	76,423,674	\$56.72	N/A	\$56.72	200,000	327,825	2,861,915
Class B	40,968,451	N/A	\$43.67	\$43.67	0	135,798	0
Class C	6,763,644	N/A	N/A	\$39.48	0	0	0
<b>District of Columbia</b>	<b>124,155,769</b>	<b>\$56.72</b>	<b>\$43.67</b>	<b>\$52.00</b>	<b>200,000</b>	<b>463,623</b>	<b>2,861,915</b>



# DISTRICT OF COLUMBIA 2Q16 OFFICE MARKET OUTLOOK

www.ngkf.com

## Submarket Statistics – All Classes

	Total Inventory (SF)	Direct Vacancy Rate	Total Vacancy Rate	2013 Absorption (SF)	2014 Absorption (SF)	2015 Absorption (SF)	2Q 2016 Absorption (SF)	YTD 2016 Absorption (SF)
Capitol Hill	4,538,604	8.0%	8.3%	232,842	-226,956	149,518	40,393	44,082
Capitol Riverfront	3,685,480	10.6%	11.2%	-16,657	45,862	241,453	12,496	-9,016
Central Business District	37,822,926	7.9%	8.7%	144,828	65,715	544,244	463,306	600,670
East End	40,894,678	12.0%	12.9%	-350,210	467,574	43,820	-199,357	-96,457
Georgetown	2,851,274	4.4%	6.3%	109,854	59,086	58,942	-40,364	-52,291
NoMa	10,992,386	14.0%	14.4%	594,630	11,446	145,735	-76,568	-63,607
Southwest	12,485,278	12.4%	12.4%	-197,873	-207,415	87,672	116,553	52,007
Uptown	7,360,638	12.8%	14.0%	-64,634	-445,744	-86,236	-21,012	215
West End	3,524,505	12.1%	12.6%	30,262	-110,513	-166,354	35,474	34,641
<b>DC - District of Columbia</b>	<b>124,155,769</b>	<b>10.7%</b>	<b>11.4%</b>	<b>483,042</b>	<b>-340,945</b>	<b>1,018,794</b>	<b>330,921</b>	<b>510,244</b>

## Submarket Statistics – All Classes

	Total Inventory (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Overall Asking Rent (Price/SF)	2Q 2016 Deliveries (SF)	YTD 2016 Deliveries (SF)	Under Construction (SF)
Capitol Hill	4,538,604	\$61.44	\$49.19	\$57.78	0	0	460,000
Capitol Riverfront	3,685,480	\$46.89	NA	\$46.79	0	0	235,000
Central Business District	37,822,926	\$57.49	\$45.12	\$52.34	0	263,623	472,119
East End	40,894,678	\$61.68	\$47.39	\$57.17	0	0	1,470,827
Georgetown	2,851,274	\$55.53	\$40.19	\$43.43	0	0	0
NoMa	10,992,386	\$53.08	\$35.49	\$49.58	200,000	200,000	0
Southwest	12,485,278	\$49.17	\$35.94	\$42.51	0	0	223,969
Uptown	7,360,638	\$43.17	\$37.47	\$40.71	0	0	0
West End	3,524,505	\$56.31	\$47.43	\$54.30	0	0	0
<b>DC - District of Columbia</b>	<b>124,155,769</b>	<b>\$56.72</b>	<b>\$43.67</b>	<b>\$52.00</b>	<b>200,000</b>	<b>463,623</b>	<b>2,861,915</b>




---

**WASHINGTON, DC**

1899 Pennsylvania Avenue NW  
Suite 300  
Washington, DC 20006  
202.331.7000

---

**Gregory H. Leisch, CRE**

Senior Managing Director  
202.312.5745  
gleisch@ngkf.com

**Alexander (Sandy) Paul, CRE**

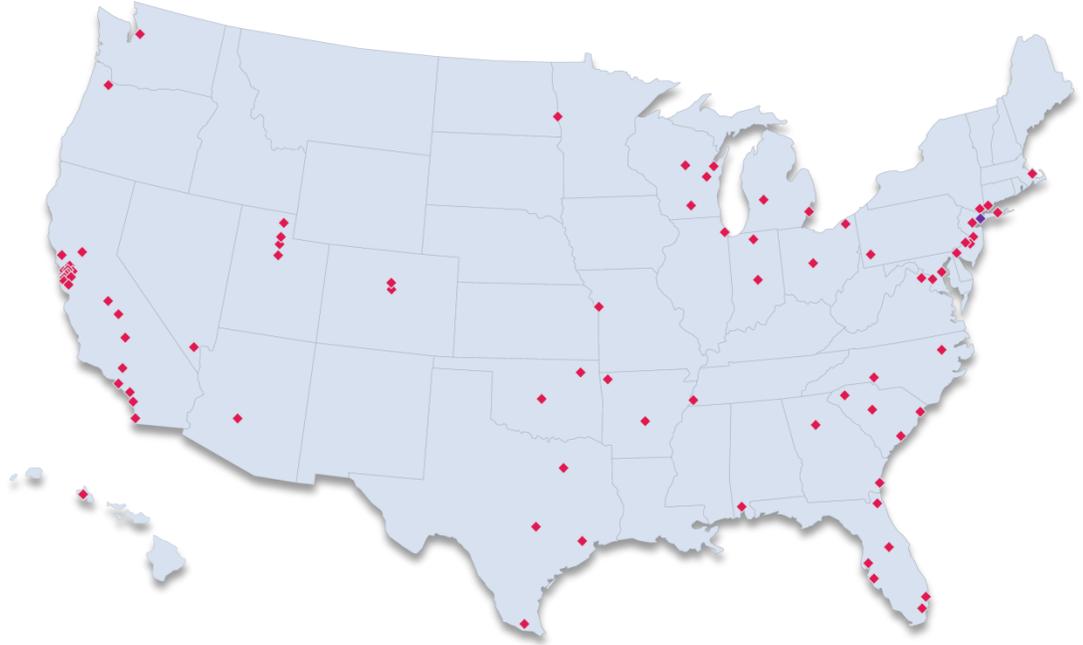
Managing Director  
202.312.5783  
apaul@ngkf.com

**Bethany Schneider**

Senior Research Analyst  
202.664.5898  
bschneider@ngkf.com

**Banning Kuebler**

Senior Research Analyst  
202.312.5770  
banning.kuebler@ngkf.com

**Newmark Grubb Knight Frank United States Office Locations**


**Newmark Grubb Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents.**

Newmark Grubb Knight Frank Research Reports are also available at [www.ngkf.com/research](http://www.ngkf.com/research)

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark Grubb Knight Frank (NGKF) has not verified any such information, and the same constitutes the statements and representations only of the source thereof, and not of NGKF. Any recipient of this publication should independently verify such information and all other information that may be material to any decision that recipient may make in response to this publication, and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial, and tax aspects and implications.

Any recipient of this publication may not, without the prior written approval of NGKF, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains.



Please recycle,  
whenever possible  
**Sustainably**

**Newmark Grubb Knight Frank**