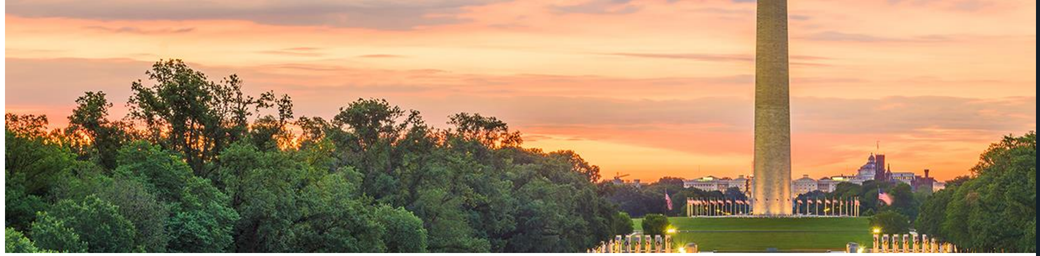
SEE A BRIGHTER WAY



Research

United States

Office | Q1 2025

Washington, DC

- Office market recovery trends, which were first observed in Q4 2024, continued through the first quarter. Vacancy rates declining slightly and Trophy supply was increasingly tight.
- Leasing demand was average for the first quarter, with local government and law firm tenants driving the most leasing volume.
- A meaningful increase in return-to-office rates was seen in Q1, which should have a positive impact on office demand.

Fundamentals		Forecast
YTD net absorption	-169,793 s.f.	→
Total vacancy	19.7%	→
Class A direct asking rent	$73.21 p.s.f.	↑
Overall direct asking rent	$59.70 p.s.f.	→
Concessions	Stable	→
Under construction	400,000 s.f.	→
Preleased	50.0%	↑

The Washington, DC office market demonstrated resilience in Q1 2025, continuing the recovery trends observed in the previous quarter. The total vacancy rate dropped for the second quarter in a row. Net absorption was -169,793 s.f., largely driven by CoStar's full-building move from the East End to Northern Virginia. The Trophy segment remained particularly robust, with vacancy rates continuing to decrease and asking rents climbing to $92 p.s.f. FS. This trend is expected to persist, given the absence of office groundbreakings in 2024, with none anticipated for 2025.

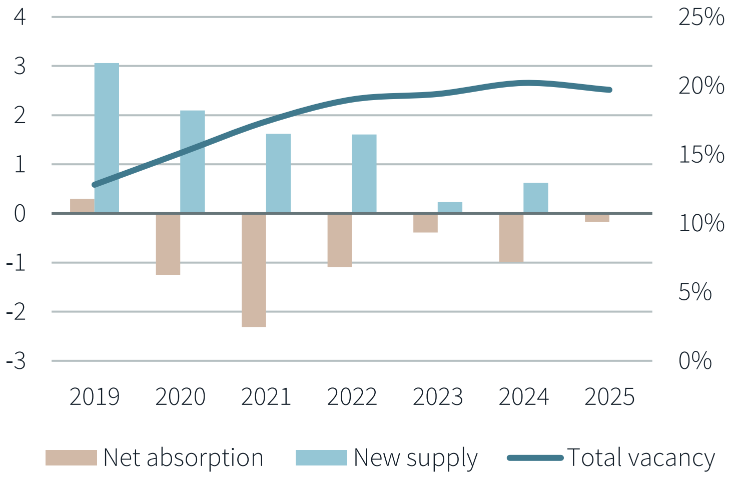
Local government and law firms generated the most leasing volume in Q1. Three DC government entities leased over 262,000 s.f., and law firms secured approximately 230,000 s.f. for spaces exceeding 10,000 s.f. DC Government Board of Elections, Freshfields and DC Department of Disability Services were the largest leases of Q1. The U.S. Federal Retirement Thrift Investment Board renewal was the only federal lease of the quarter.

While office market fundamentals are improving, challenges persist, particularly in lower tiers of the market. There is 25.8 million s.f. of vacant office space in DC. Class C vacancy rates grew to 26% in Q1 2025. Vacancy is most concentrated in older, undifferentiated and mid-block office inventory.

Outlook

Looking ahead, the policies put into place by the new administration could have a profound impact on DC office market. A significant increase in return-to-office rates could revitalize the city's weekday economy and boost office demand. The General Services Administration's potential shift away from owned real estate assets presents an opportunity to absorb some of the vacant office space and spur redevelopment. However, the planned reduction in the federal workforce and cuts to contractor spending may disproportionately impact the DC region. Time will tell whether the net impact of these policies will benefit the DC office market.

Historical supply and demand trends



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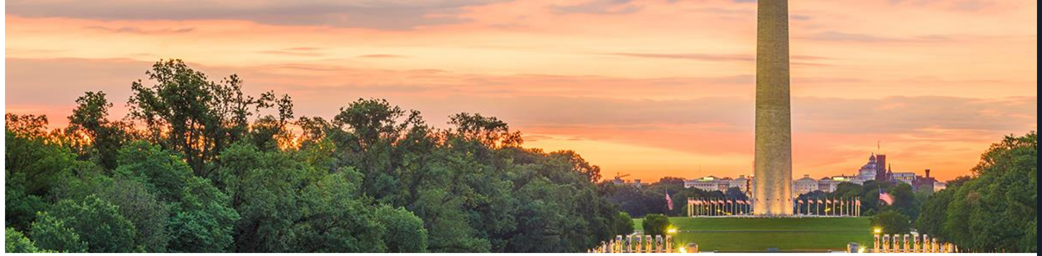

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