# MARKETBEAT
# Washington, DC
## OFFICE Q2 2025

## MARKET FUNDAMENTALS

| | YOY Chg | Outlook |
|---|---|---|
| **21.8%** Vacancy Rate | ▲ | ▲ |
| **-543K** YTD Net Absorption, SF | ▲ | ▲ |
| **$55.04** Asking Rent, PSF | — | — |

*(Overall, All Property Classes)*

## ECONOMIC INDICATORS

| | YOY Chg | Outlook |
|---|---|---|
| **768K** Washington, DC Employment | ▼ | ▼ |
| **5.9%** Washington, DC Unemployment Rate | ▲ | ▲ |
| **4.2%** Country Unemployment Rate | ▲ | ▲ |

*Source:BLS*

## MARKET SEGMENTS

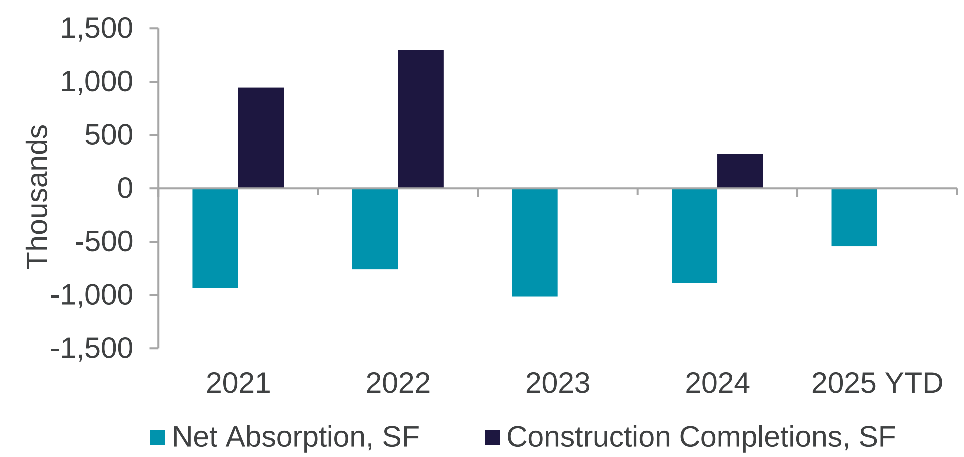
In Q2 2025, Washington, D.C. recorded just under 1.5 million square feet (msf) of gross leasing activity, comprised of 724,000 sf of new deals and 755,000 sf in renewals. This brings year-to-date (YTD) gross leasing to 3.0 msf, with just over 1.6 msf in new leasing and 1.3 msf in renewals. Compared to the 4.3 msf leased in the first half of 2024, gross activity is down 30% for the first half of 2025. This decline was primarily driven by a steep 51% decline in renewals from 2.8 msf, even as new leasing edged up nearly 6% year-over-year (YOY).

Despite the Department of Justice renewing 403,000 sf at 145 N Street, NE this quarter, federal and local government leasing volume remains notably weak, down 35% YTD from 1.2 msf in the first half of 2024 to 771,000 sf in the first half of 2025. The shortfall in public sector leasing has been a major factor behind the District's overall leasing underperformance.

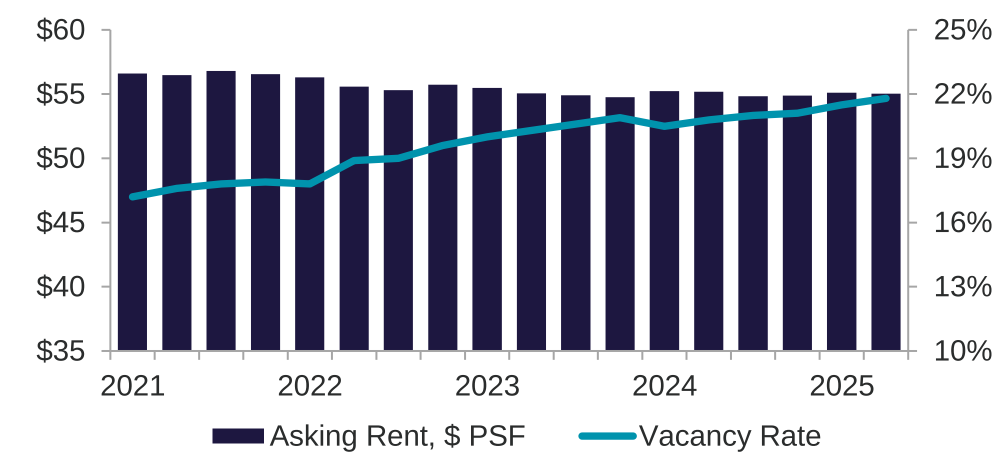
Law firms were active in the second quarter, inking a total of 354,000 sf, bringing YTD legal sector gross leasing to 586,000 sf. Cooley signed the largest lease of the quarter, taking 125,680 sf at BXP's development at 725 12th Street, NW, joining fellow law firm McDermott Will & Emery in preleasing space at the new project. BakerHostetler inked the largest new lease in the CBD at 1717 K Street, NW, subletting 81,500 sf from ArentFox and downsizing by 18,500 sf. Groom Law Group inked 38,800 sf at 3050 K Street, NW in Georgetown, taking a portion of Kelley Drye & Warren's space and downsizing by 11,000 sf.

Core submarkets accounted for 85% of new leasing this quarter, or 615,000 sf leased. The CBD recorded for 329,000 sf while the East End netted 286,000 sf. In the CBD, Saul Ewing inked 25,000 sf at 1800 M Street, NW while Kiernan Trebach signed for 24,000 sf at 1776 Eye Street, NW and the The Malin will open a new 20,400 sf coworking location at 1156 15th Street, NW. World Central Kitchen sublet 11,100 sf at 1111 19th Street, NW. In the East End, the American Dental Education Association took 30,295 sf at 555 12th Street, NW and America First Policy Institute signed an expansion for 13,500 sf at 1455 Pennsylvania Avenue, NW. Prime Partners Engineering sublet 11,500 sf from Kiplinger at 1100 13th Street, NW. The West End/Georgetown submarket saw over 67,200 sf of new leasing, the most in three years, driven by Groom Law Group's 38,800 sf deal at Washington Harbor and Tuckernuck's 14,900 sf expansion at 1250 24th Street, NW.

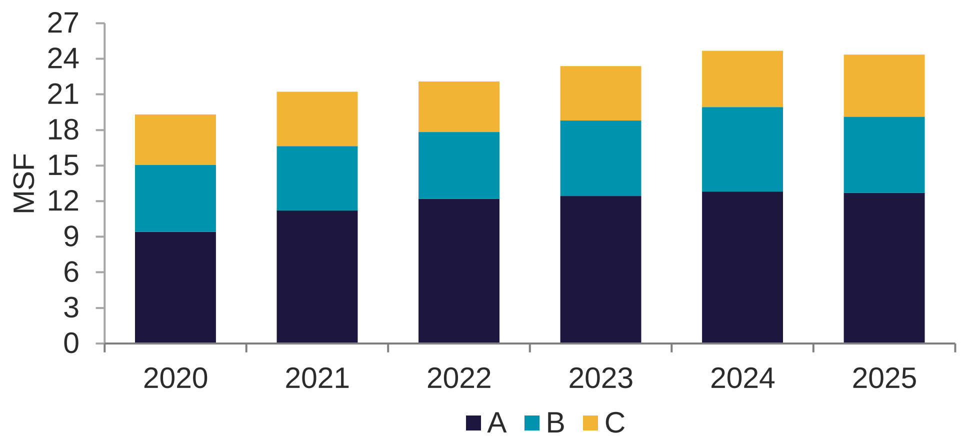
## SPACE DEMAND / DELIVERIES



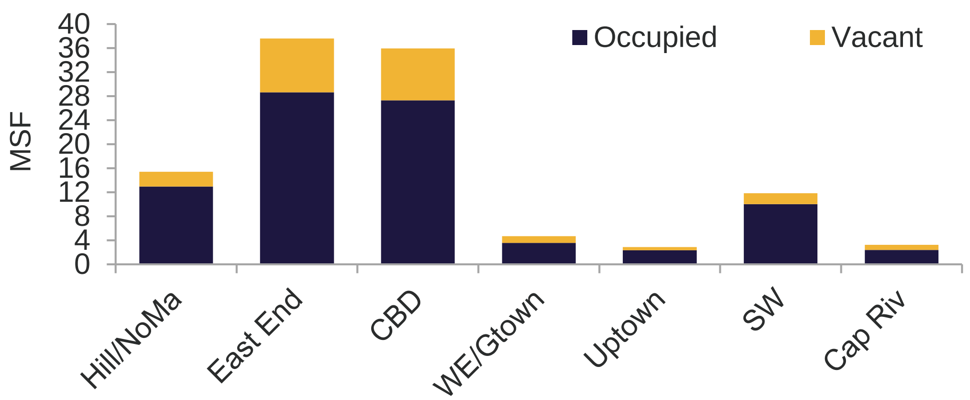

## OVERALL VACANCY & ASKING RENT



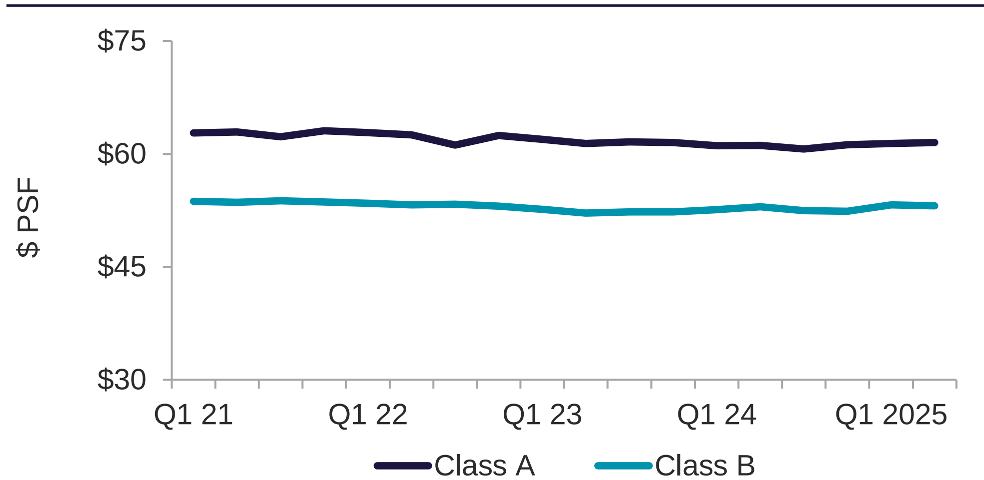
### VACANT SPACE BY CLASS




### SUBMARKET COMPARISON




### ASKING RENT COMPARISON




## SUPPLY AND DEMAND

Washington, DC recorded just over 226,000 sf of negative absorption in Q2 bringing YTD absorption total to negative 543,000 sf. While this is a considerable amount of negative absorption, it is 25% lower than the 720,000 sf of negative absorption in the first half of 2024. Consistent with absorption trends in prior years, the East End is responsible for 70% of the total negative absorption posting -382,650 sf for the first half of 2025.

The Department of Homeland Security had the largest move-out of Q2, departing from over 50,000 sf at 1201 Maryland Avenue, SW, and will be consolidating across other locations. Zuckerman Spaeder was the largest law firm to move, leaving 42,000 sf at 1800 M Street, NW to 40,000 sf at 2100 L St, NW. IREX, a global education and development nonprofit, left over 42,000 sf at 1275 K Street, NW for 35,000 sf at 1350 Eye Street, NW. Law firm Bradley Arant Boult Cummings vacated 30,000 at 1615 L Street, NW for nearly 28,000 sf of Denton's sublease space at 1900 K Street, NW. The fallout of the dismantling of USAID is still being felt this quarter after international aid organization ACDI/VOCA terminated 109 employees and exited over 40,000 sf at 50 F Street, NW.

Vacancy in Q2 climbed to 21.8%, up 30 basis points (bps) from Q1 2025 and 100 bps YOY. Class A vacancy increased 10 bps to 18.5%, Class B jumped 70 bps to 25.1%, while Class C rose by 20 bps to 30.1% from the previous quarter. Trophy buildings within Class A continued to outperform with a low vacancy of 11.7%. Despite substantial negative absorption, the rise of vacancy rates has been partially offset by the removal of roughly 1.6 msf from the office inventory since Q2 2024, which has been repurposed into residential and hospitality uses.

## PRICING

As of Q2 2025, average full-service asking rents in Washington, D.C. held steady at $55.04 psf, down $0.15 psf YOY. Class A rents led gains, rising $0.38 psf to $61.53, Class B rents were slightly higher by $0.11 psf at $53.11, while Class C rents dropped $0.88 psf to $45.02.

Tenant improvement allowances have grown significantly, rising from an average of $100 per square foot (psf) in 2019 to $145.00 psf at the end of Q2 2025. Abatement packages have also increased, climbing from 1.2 months to 1.5 months per year of term for deals over 10,000 sf with lease terms of five years or more in core submarkets. With the growing scarcity of high-quality, large blocks of available space, owners are increasingly having more leverage and are pushing back on concessions for certain trophy deals, driving tenant improvement and abatement below post-pandemic averages.

## OUTLOOK

- Expect the gap in vacancy rates between higher quality assets and the rest of the market to widen as flight to quality continues. Tenants looking for large block trophy space have been coming to the market years before their lease ends as options dwindle.
- Expect the lack of GSA leasing activity and the reshuffling of government agencies to continue. This reshuffling, part of the ongoing federal government contraction, has put considerable downward pressure on the District's gross leasing activity and fueled more uncertainty for landlords.
- Capital markets finished the first half of 2025 with $956 million in building transactions, up 48% compared to $642 million transacted in the first half of 2024. Capital markets continue to see lender-assisted sales, as non-arm's-length transactions are up 35% YOY to 31 buildings transacted in the first half of 2025.

## MARKET STATISTICS

| SUBMARKET | INVENTORY (SF) | DIRECT VACANT (SF) | SUBLET VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION (SF) | YTD OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF) | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A)* |
|---|---|---|---|---|---|---|---|---|---|---|
| Capitol Hill / NoMa | 15,430,807 | 2,430,046 | 44,292 | 16.0% | -44,344 | -162,044 | 144,131 | 0 | $51.32 | $52.69 |
| East End | 37,586,446 | 8,486,720 | 457,316 | 23.8% | -62,502 | -382,649 | 628,339 | 385,000 | $57.19 | $64.74 |
| CBD | 35,941,627 | 8,422,059 | 201,047 | 24.0% | -109,912 | -76,439 | 713,153 | 0 | $55.92 | $65.61 |
| West End / Georgetown | 4,682,116 | 1,016,904 | 106,610 | 24.0% | 9,635 | 64,655 | 103,476 | 0 | $50.15 | $54.65 |
| Uptown | 2,896,111 | 531,287 | 25,466 | 19.2% | 22,865 | 41,282 | 17,734 | 0 | $44.25 | $48.01 |
| Southwest | 11,851,035 | 1,794,866 | 25,362 | 15.4% | -29,069 | -3,102 | 22,278 | 0 | $48.85 | $51.84 |
| Capitol Riverfront | 3,225,932 | 679,270 | 127,835 | 25.0% | -13,101 | -24,635 | 24,641 | 0 | $58.72 | $58.72 |
| **DOWNTOWN TOTALS** | **111,614,074** | **23,361,152** | **987,928** | **21.8%** | **-226,428** | **-542,932** | **1,653,752** | **385,000** | **$55.04** | **$61.53** |

**Rental rates reflect full service asking*

## KEY LEASE TRANSACTIONS Q2 2025

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---|---|---|---|---|
| 145 N Street, NE | Capitol Hill/NoMa | U.S. Department of Justice | 402,787 | Renewal* |
| 725 12th Street, NW | East End | Cooley LLP | 125,680 | New Lease |
| 1000 Connecticut Avenue, NW | CBD | BakerHostetler | 81,538 | Sublease |
| 1000 Maine Avenue, SW | Southwest | Business Roundtable | 44,700 | Renewal* |
| 1201 F Street, NW | East End | Charles Rivers Associates | 41,514 | Renewal*, Expansion |
| 1250 24th Street, NW | West End/Georgetown | Tuckernuck | 39,883 | Renewal*, Expansion |
| 3050 K Street, NW | West End/Georgetown | Groom Law Group | 38,800 | New Lease |
| 555 12th Street, NW | East End | American Dental Education Association | 30,295 | New Lease |
| 1025 Connecticut Avenue, NW | CBD | Oceana Inc. | 26,385 | Renewal* |
| 1800 M Street, NW | CBD | Saul Ewing | 25,000 | New Lease |

**Renewals not included in leasing statistics*

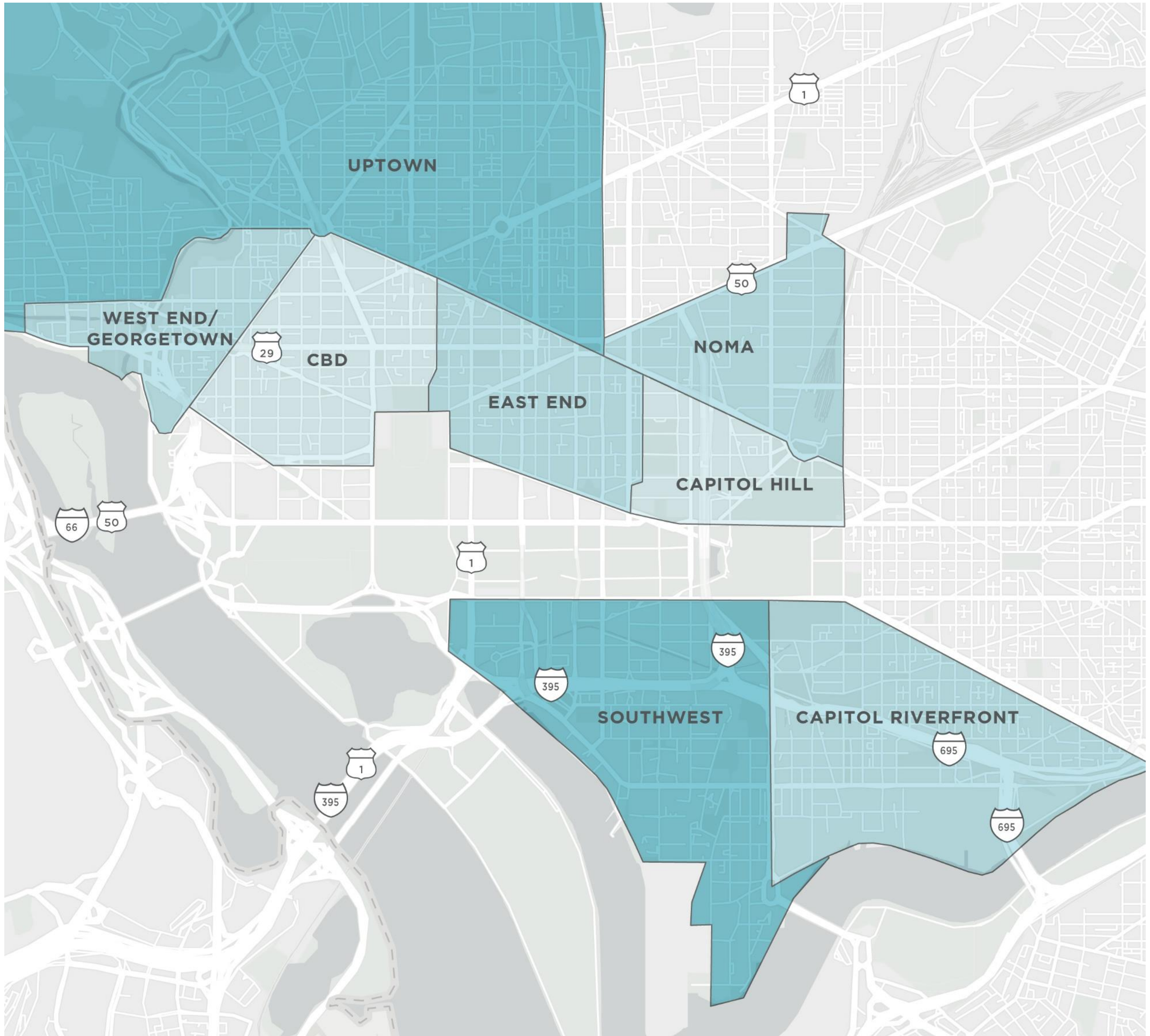
## KEY SALES TRANSACTIONS Q2 2025

| PROPERTY | SUBMARKET | SELLER/BUYER | SF | PRICE / $ PSF |
|---|---|---|---|---|
| 1200 1st Street, NE | Capitol Hill/NoMa | Principal Real Estate Investors / Easterly Government Properties | 289,873 | $118,783,588 / $409.78 |
| 901 K Street, NW | East End | Carr Properties / Shorenstein Properties | 260,797 | $84,300,000 / $383.96 |
| 300 M Street, SE | Capitol Riverfront | Potomac Investment Properties / Garfield Investments JV Broad Creek Capital | 285,000 | $28,000,000 / $98.25 |

## KEY UNDER CONSTRUCTION

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER/DEVELOPER |
|---|---|---|---|---|
| 600 5th Street NW | East End | Crowell & Moring | 385,000 | Stonebridge |

## OFFICE SUBMARKETS

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