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Washington Metro Area Commercial Real Estate Market Overview

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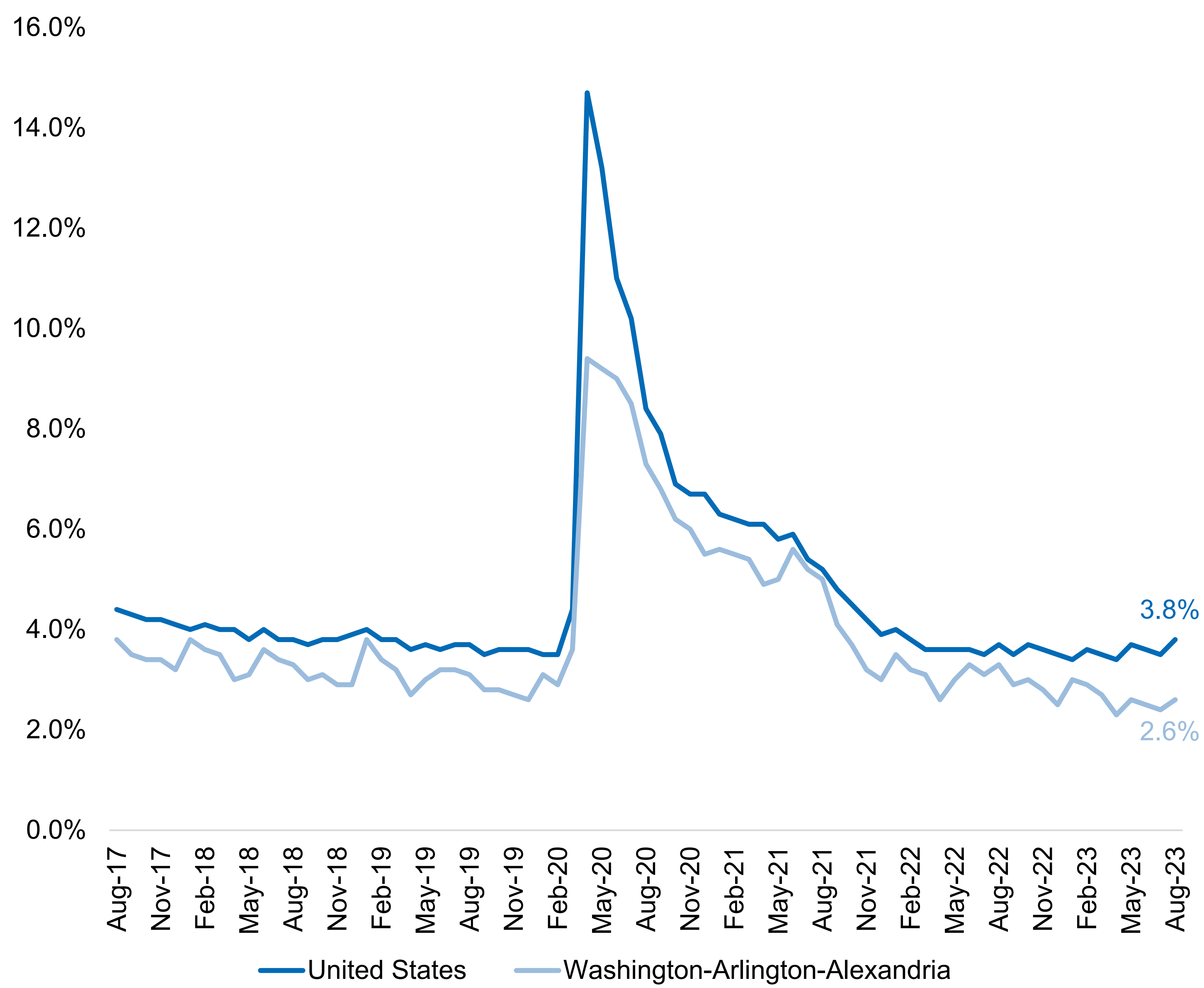
GEORGE WASHINGTON CHAPTER

WASHINGTON, D.C.

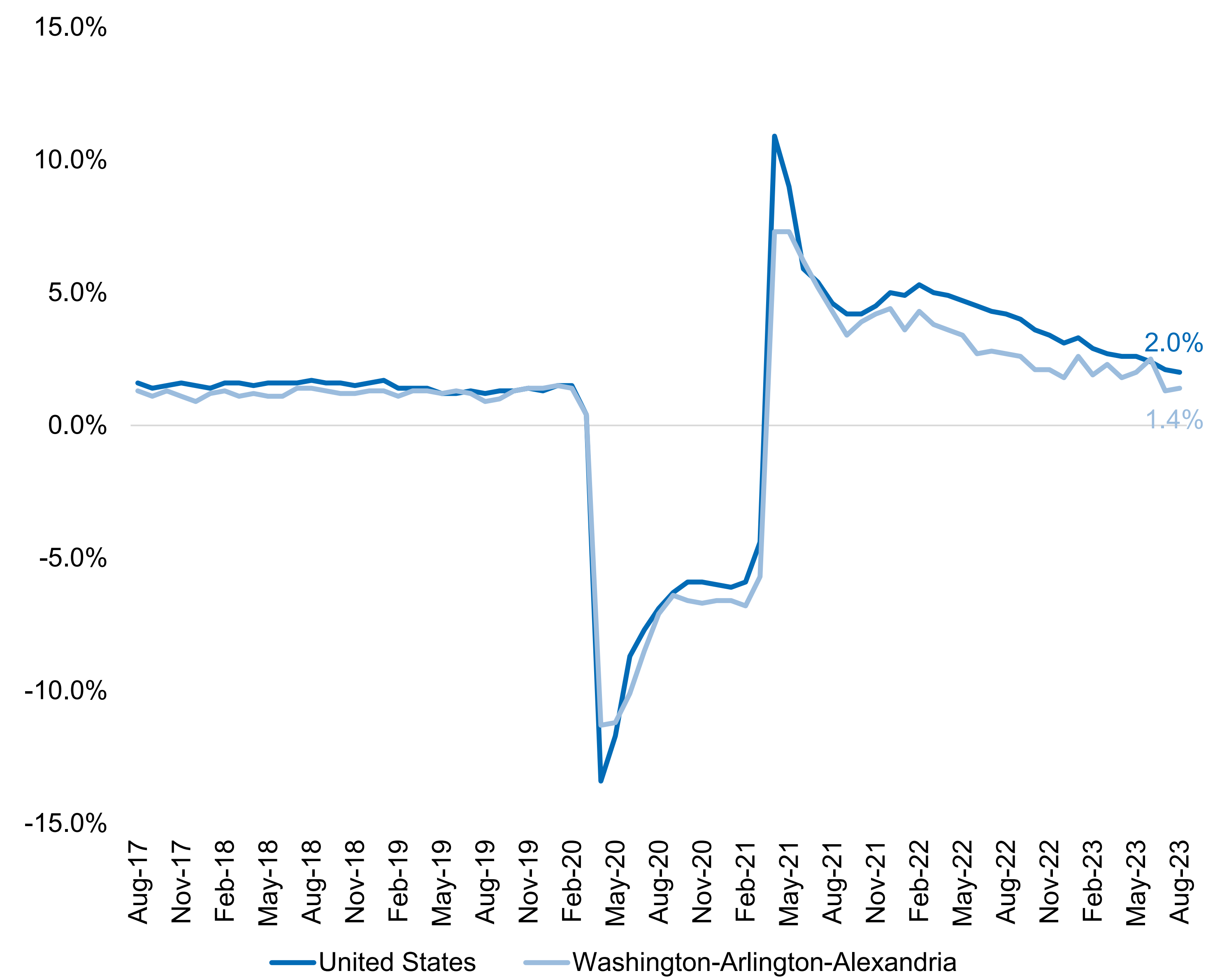
D.C. Has 3rd Lowest Metro Unemployment Rate In Nation

The region's labor market currently is tied for 3rd lowest unemployment rate among all large U.S. metros. Washington, D.C.'s metro unemployment rate is 120 basis points below the national rate.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

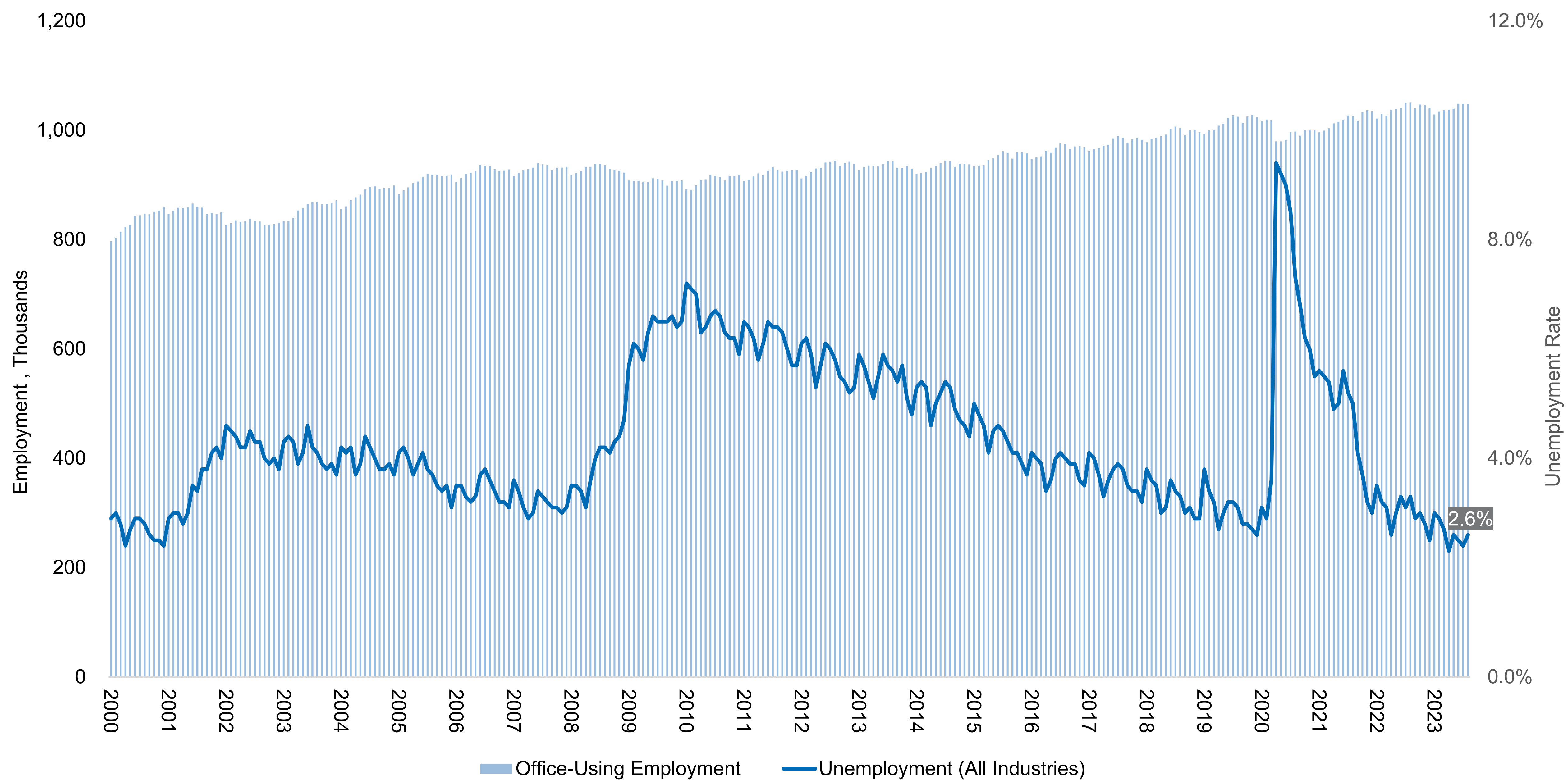


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria

Overall Office-Using Employment Has Rebounded Metrowide

The number of office-using jobs has rebounded and even exceeded pre-pandemic levels. Total office-using job totals are currently 2.3% greater than office employment in summer 2019 and 7.0% greater than the pandemic-induced employment trough in April 2020.

Office-Using Employment* and Unemployment Across All Industries

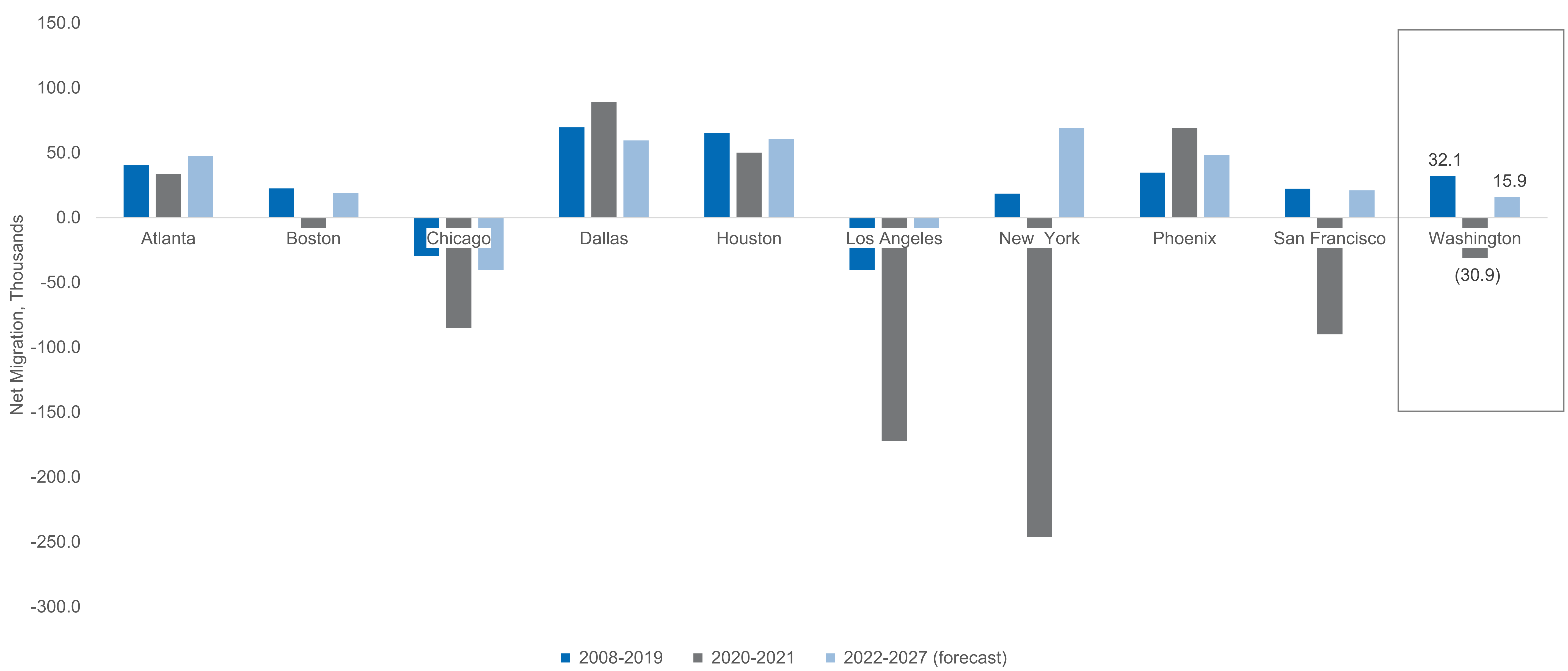


Source: U.S. Bureau of Labor Statistics, Washington-Arlington-Alexandria
Note: August 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

D.C. Metro Net Migration Expected to Attract 15,900 New Residents by 2027

During the 2008-2019 cycle, D.C.'s in-migration outpaced out-migration with 32,000 new residents in the years leading up to the Covid pandemic. While the District suffered from out-migration in 2020-2021, Oxford Economics predicts that 2022-2027 will bring 15.9 thousand net new residents—one of the biggest post-pandemic recoveries among large cities.

Historic And Forecasted Net Migration By Major Metro

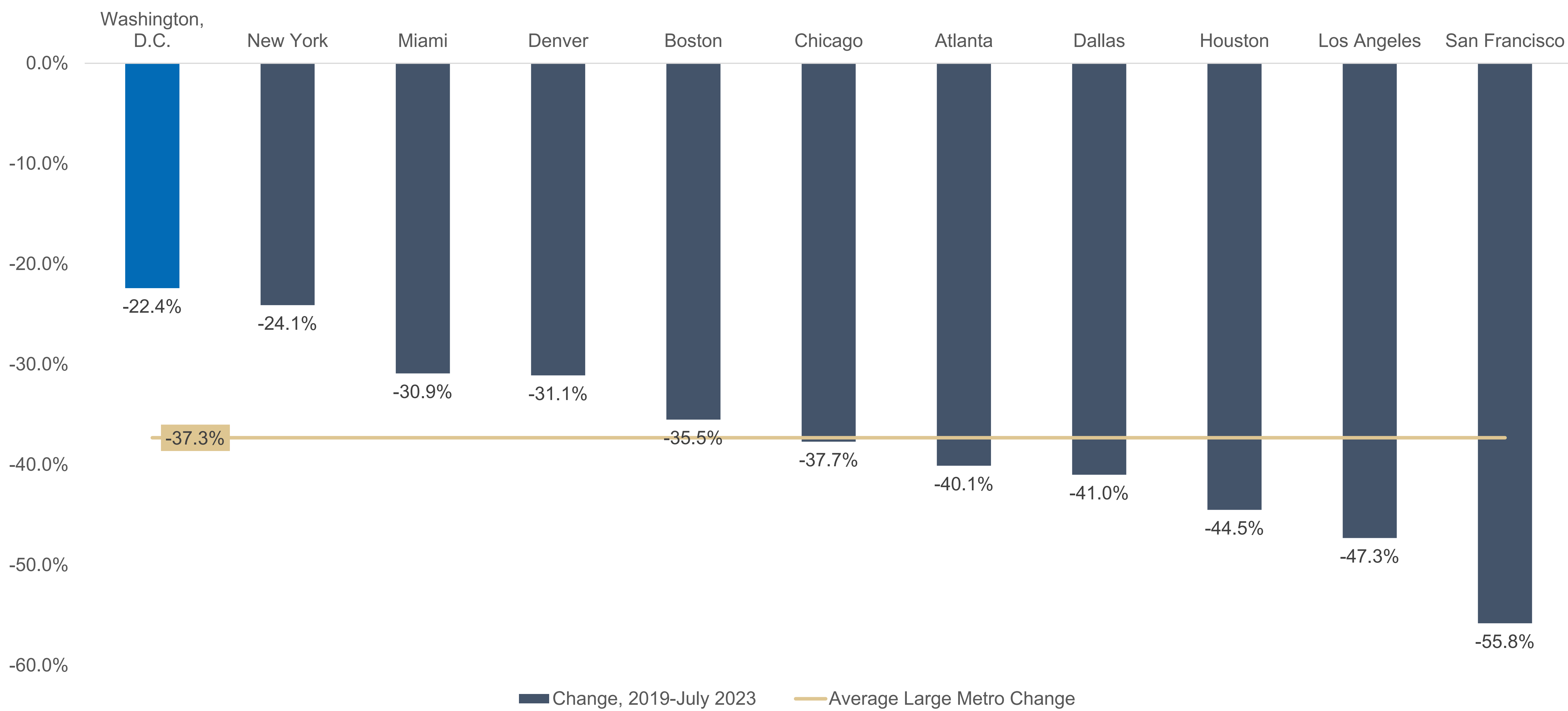


Source: Oxford Economics, Costar, Newmark Research

Office Traffic in D.C. Has Recovered Quicker Than Other Large U.S. Cities

Average monthly office visits in Washington, D.C. are down 22.4% since 2019, prior to the onset of the COVID-19 pandemic. However, office traffic in D.C. was less impacted than all other large U.S. cities surveyed. Cities like Dallas, Atlanta, Houston, and Los Angeles have lost more than 40% of average office visits. San Francisco is down 56% since 2019.

Change in Average Monthly Office Visits Per Working Day, May 2023 Compared to 2019

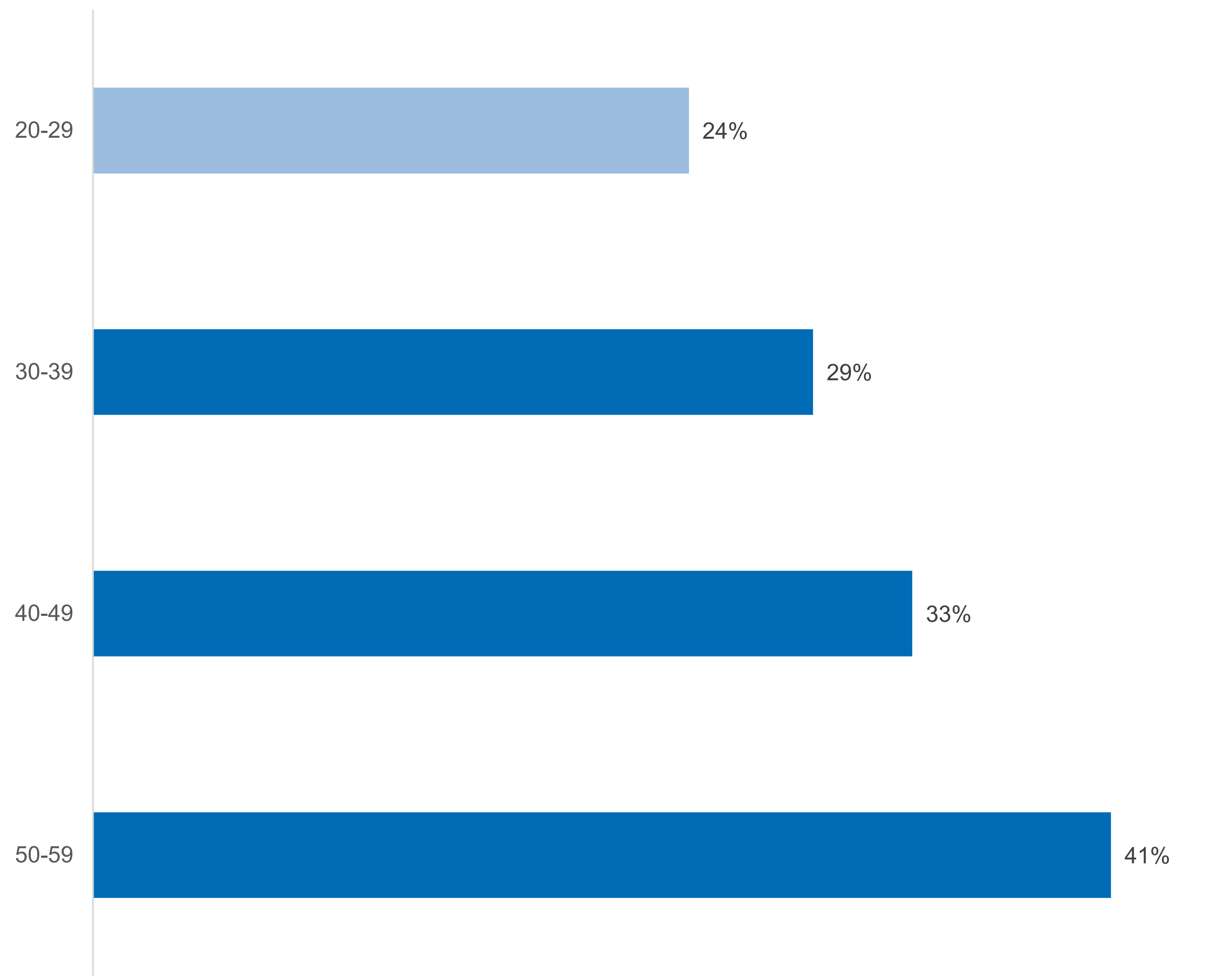


Source: Placer.ai, Newmark Research

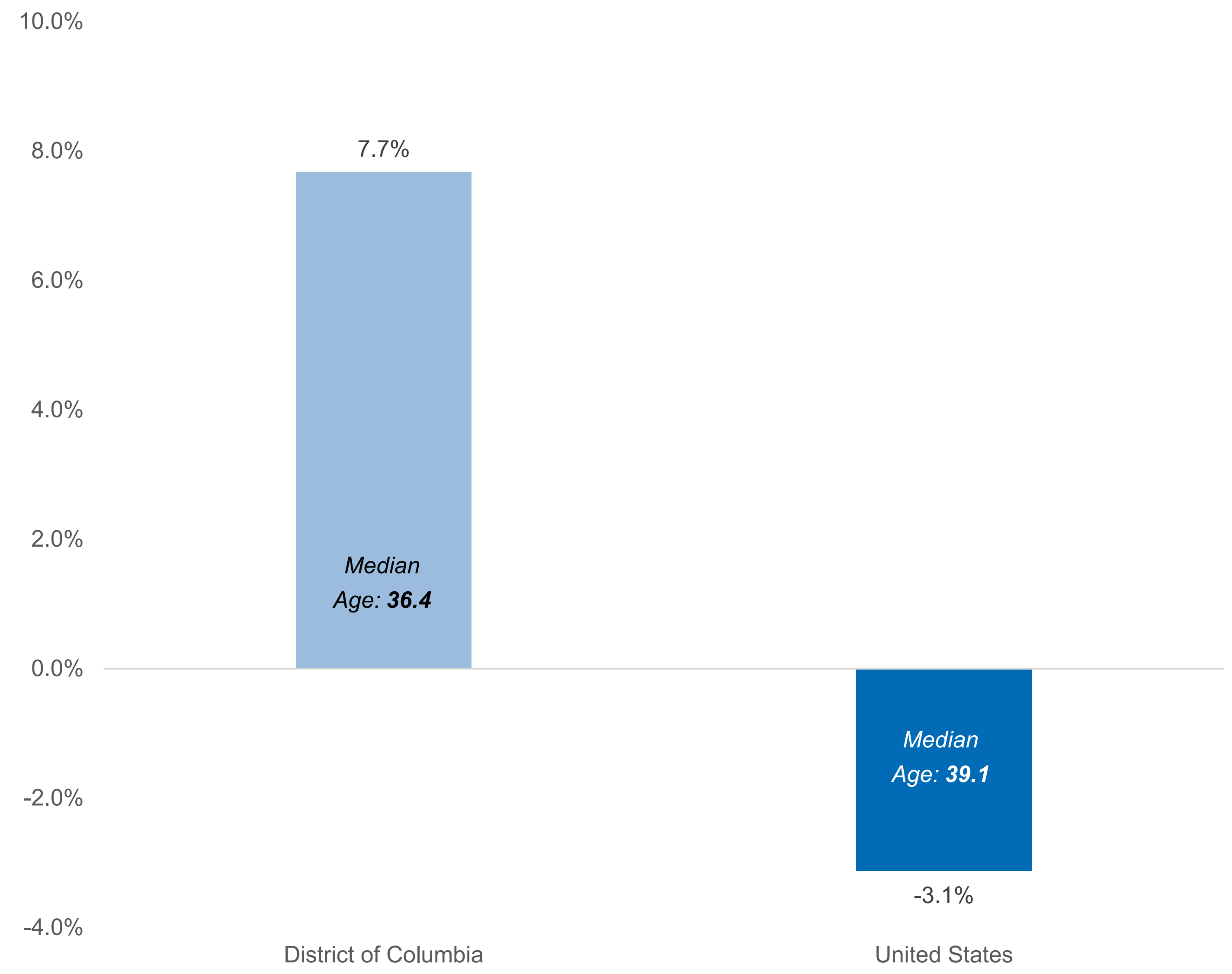
Younger Workers Prefer Office Time, And D.C.'s Workforce Is Getting Younger

Less than a quarter of workers in their 20s want to work from home full-time. In general, the older the employee, the more likely they are to prefer fully remote work. In the District of Columbia, the median age (36.4 years) is significantly lower than the U.S. average of 39.1 years. This bodes well for office demand, as it will be younger generations that desire designated office space.

Percent of Employees Who Prefer To Work From Home Full-Time



Five-Year Population Growth, 20-29 Year Olds (2023-2028)

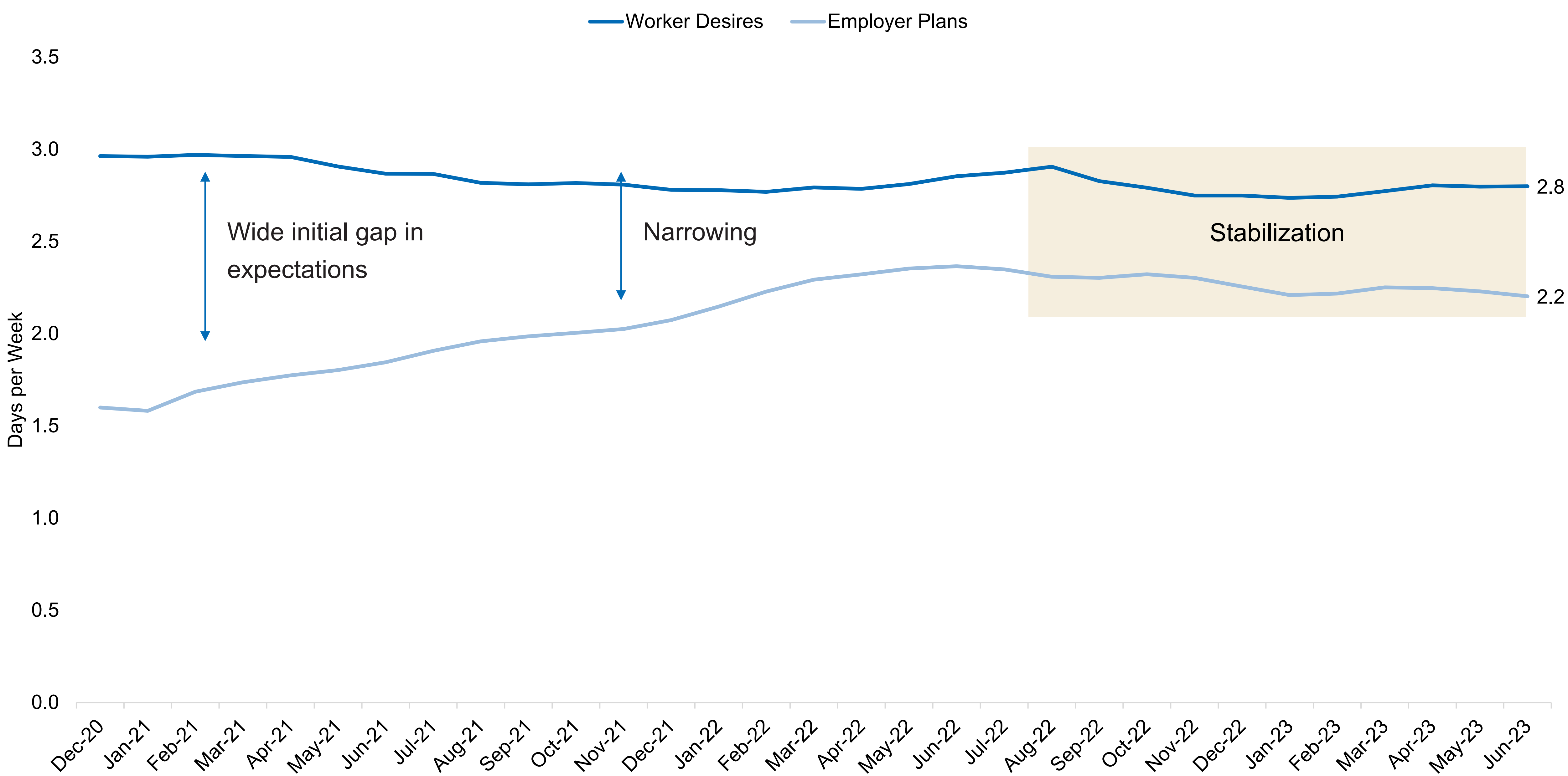


Source: Business Insider, ESRI

Gap between Worker and Employer WFH Expectations Has Stabilized

There is a persistent gap between the number of days workers would like to be able to work from home and employer policies. However, that gap has been mostly stable since the summer of 2022. Over the last year, there have been many headlines speculating that a recession would enable employers to have their way. It is logical that a weaker labor market would give employers more leverage, but 1) the economy is proving more resilient, 2) the gap in desires is narrow and 3) college-educated unemployment is 2.0%.

Average Days per Week Working From Home After the Pandemic Ends: Workers Able to Work From Home



Source: Barrero, Jose Maria, Nicholas Bloom, and Steven J. Davis, 2021. "Why working from home will stick," National Bureau of Economic Research Working Paper 28731.

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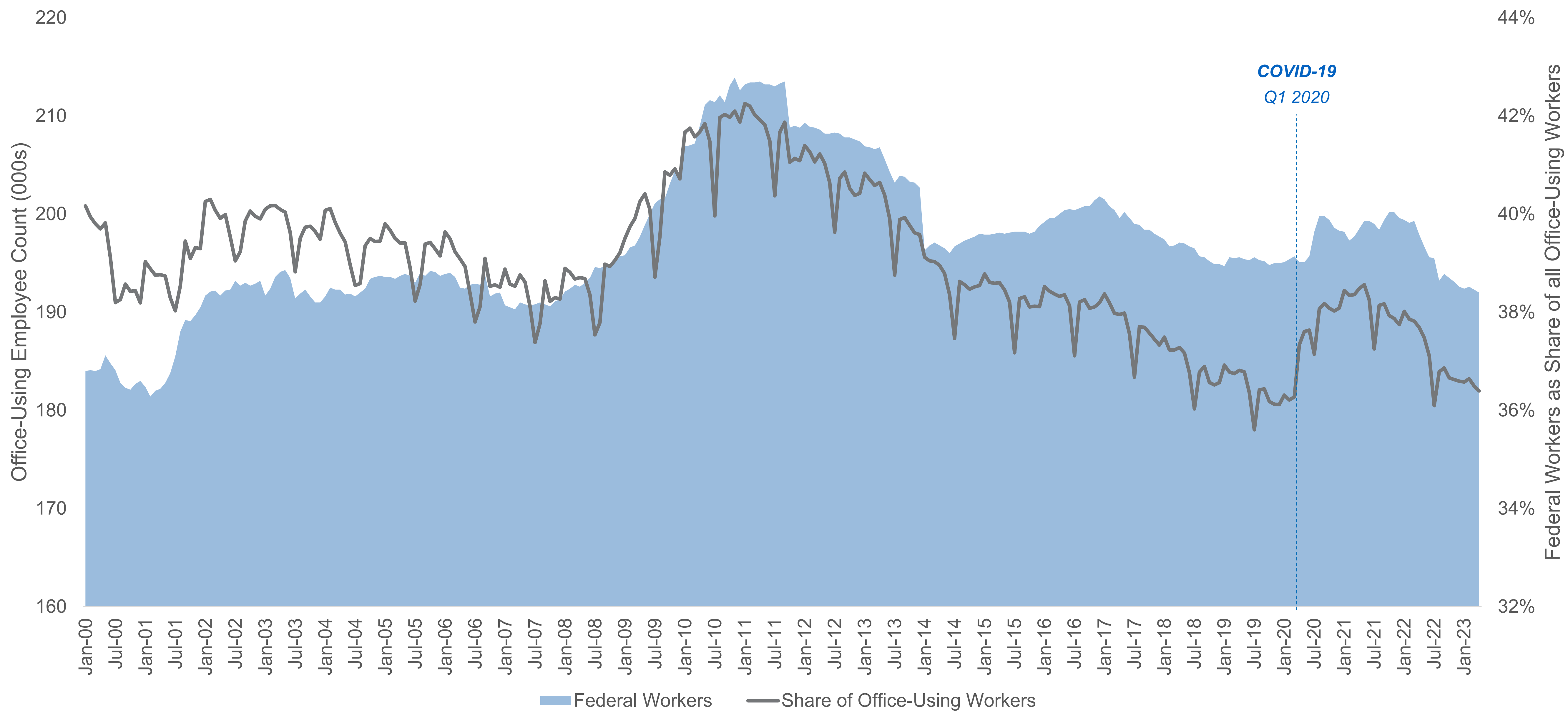
Federal Government Office Use

The D.C. Office Sector Is Diversifying, Less Dependent On Federal Workers

Exposure to federal government employment is decreasing in the District of Columbia. Federal government employment peaked at 214,000 workers in November 2010. The peak within the last cycle was 200,000 federal workers in November 2021, which has since declined 4.1% over the last five quarters.

Federal Government Employment as % of Total Office-Using Employment, District of Columbia

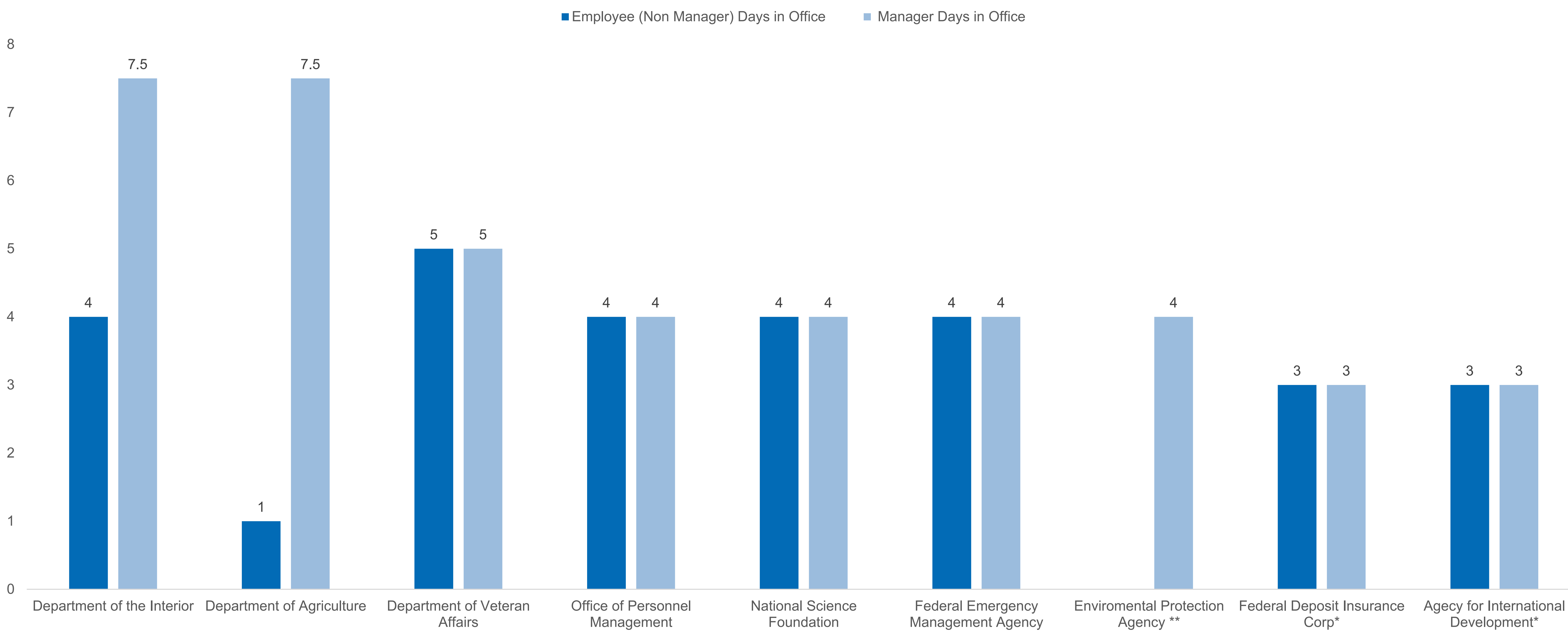


Source: BLS, FRED, Newmark Research

Government Return to Office Mandates Vary By Agency

On August 4, 2023 President Joe Biden instructed his cabinet to execute plans to return employees back to the office signaling change from the previous three years of remote work for the Federal Government.

Government Days in Office per Pay Period (Typically Ten Business Days)

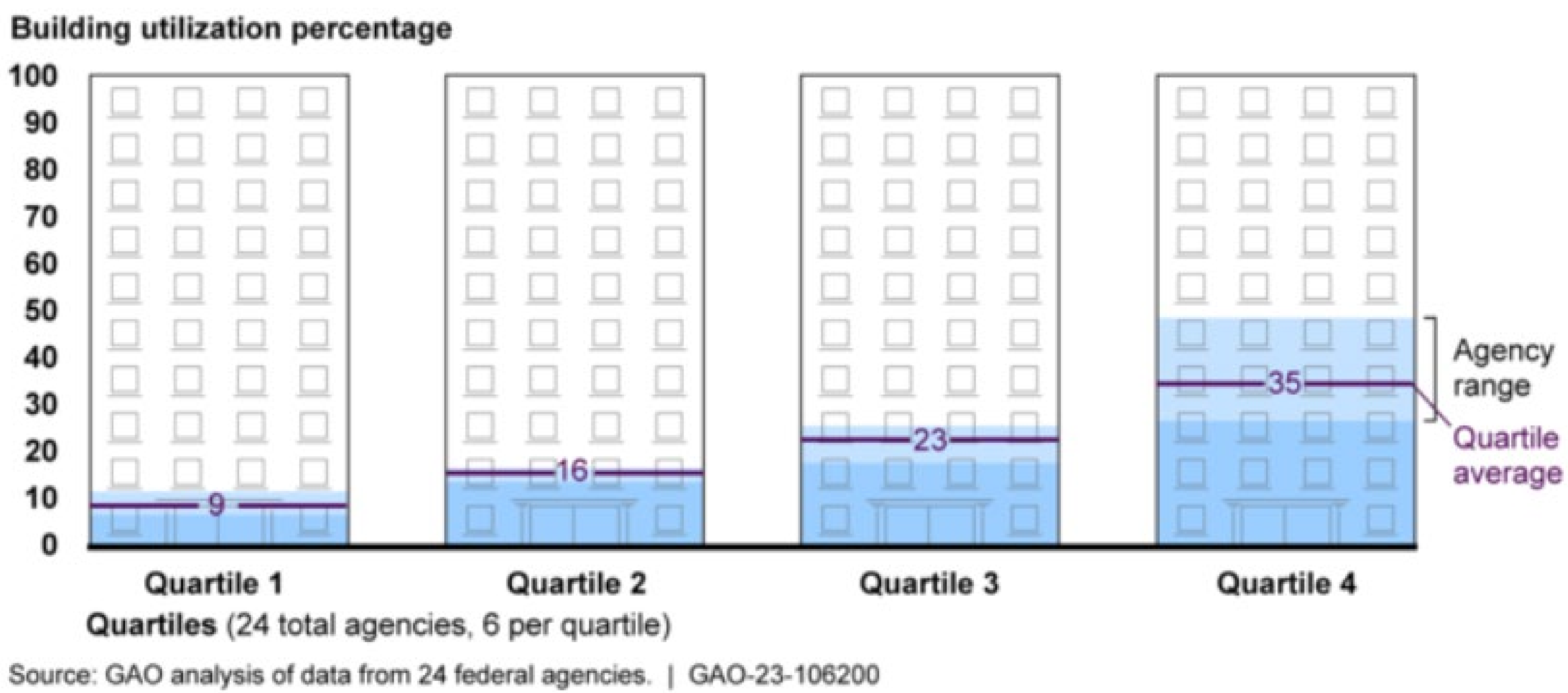


*Agencies that state days per week and not per pay period
**EPA leaves non managers days in office at discretion of Manager

17 of 24 Federal Agencies Use 25% Or Less Of Their HQ Building's Capacity

There is 21.5 million square feet of usable office space—conference rooms, team rooms, and offices—in the headquarters buildings of 24 agencies. Federal agencies spend about $2 billion a year to operate and maintain federal office buildings regardless of the buildings' utilization. In addition, agencies spend about $5 billion annually to lease office buildings.

Quartile Weekly Utilization Estimated Averages of Federal Headquarters Buildings across Three-Week Sample (One week in each of January, February, and March 2023)

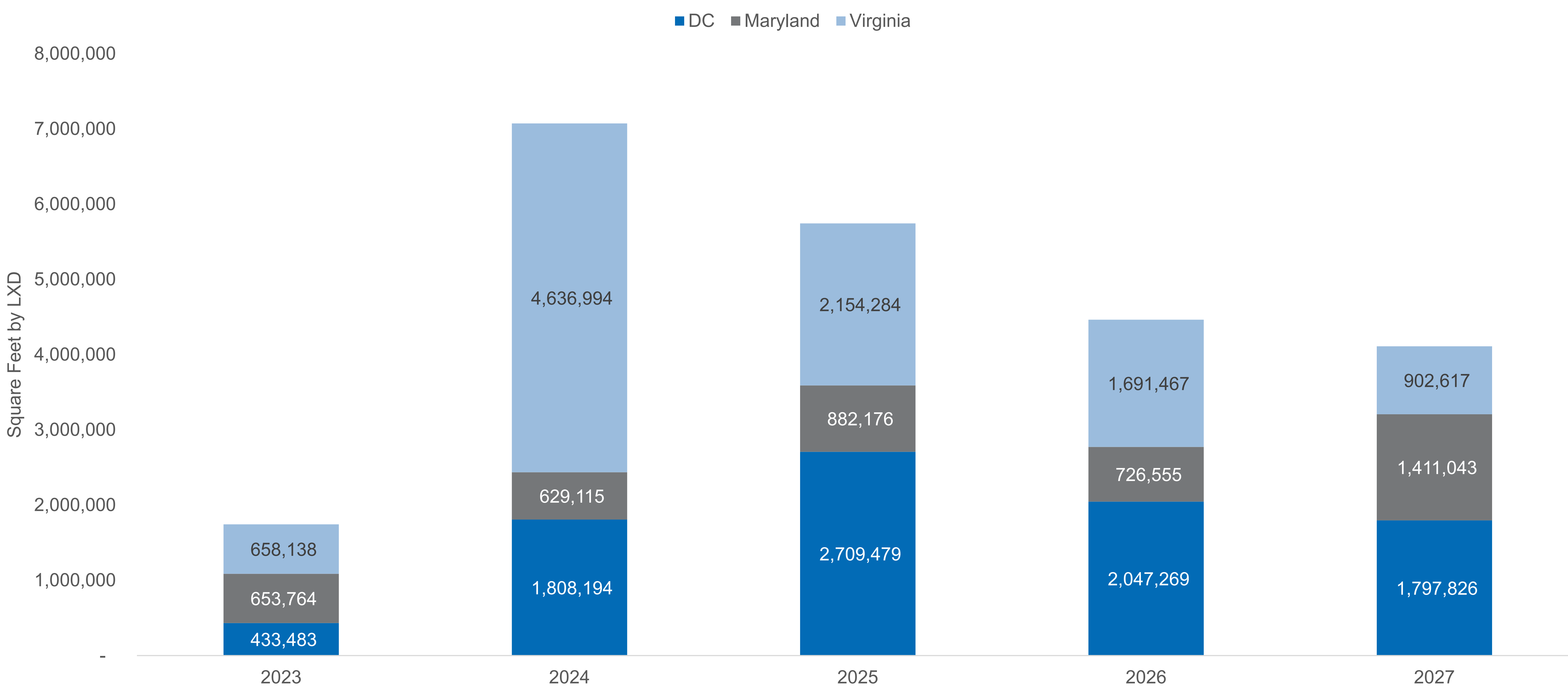


Source: U.S. Government Accountability Office (GAO), Newmark Research

Half of GSA's Leased Space in D.C. Expires By 2027

In D.C., 50% of GSA's total leased space will expire by 2027 (8.8M SF). In the DMV region, 42% of GSA-leased space will expire by 2027 (23.1M SF). Nationwide, 44% of leased space will expire by 2027 (77.9M SF), which represents half of all leases (3,827 leases out of 7,639 analyzed comps).

GSA Lease Expiration Dates by Year by State

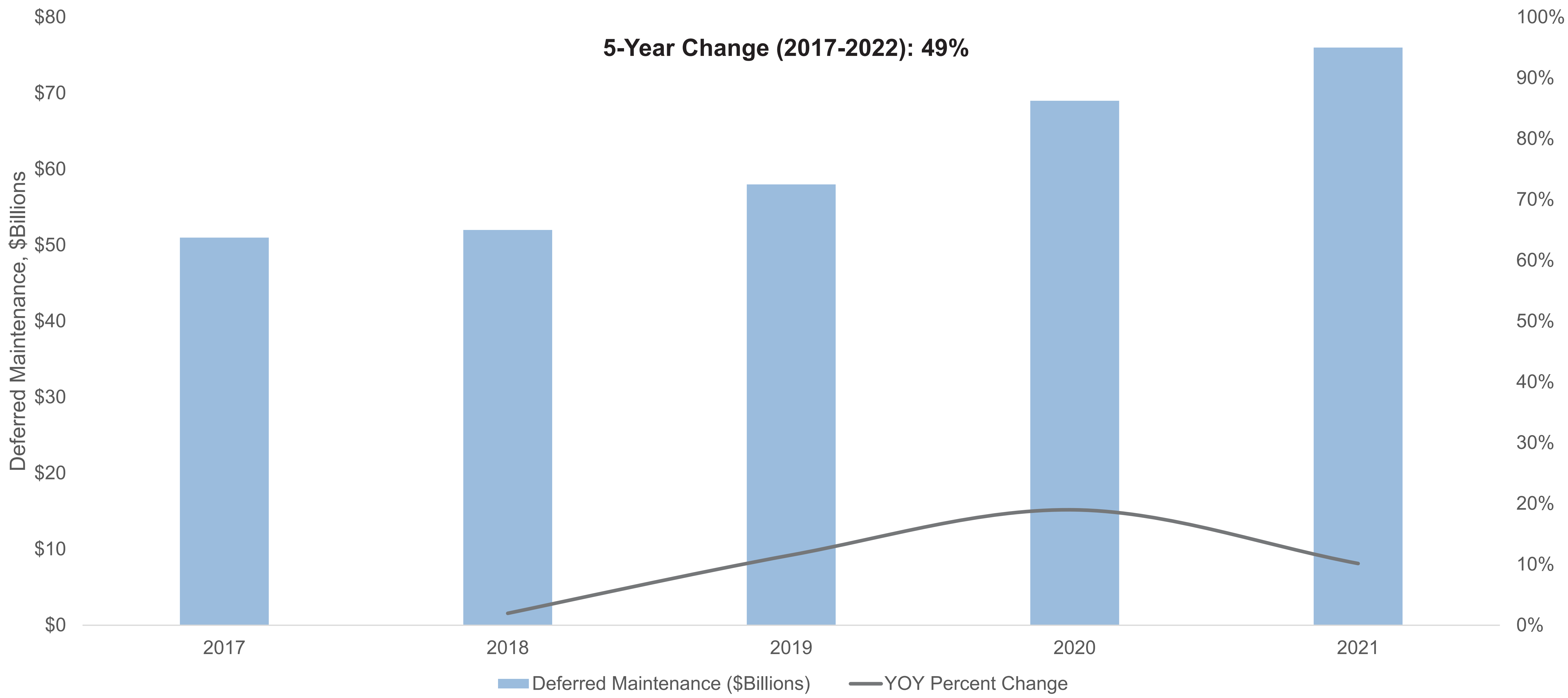


Source: GSA, U.S. Government Accountability Office (GAO), Newmark Research

Civilian Agencies Have Deferred $76 Billion Worth Of Repairs And Maintenance

Civilian agencies—i.e., non-military agencies—deferred $51 billion worth of repairs and maintenance in FY 2017. That amount grew to $76 billion in FY 2021. Officials at the Department of Energy (Energy); Department of Health and Human Services (HHS); Department of the Interior (Interior); and General Services Administration (GSA) attributed the increase to funding constraints and increases in maintenance and repair costs, among other factors.

Reported Deferred Maintenance



Source: U.S. Government Accountability Office (GAO), Newmark Research

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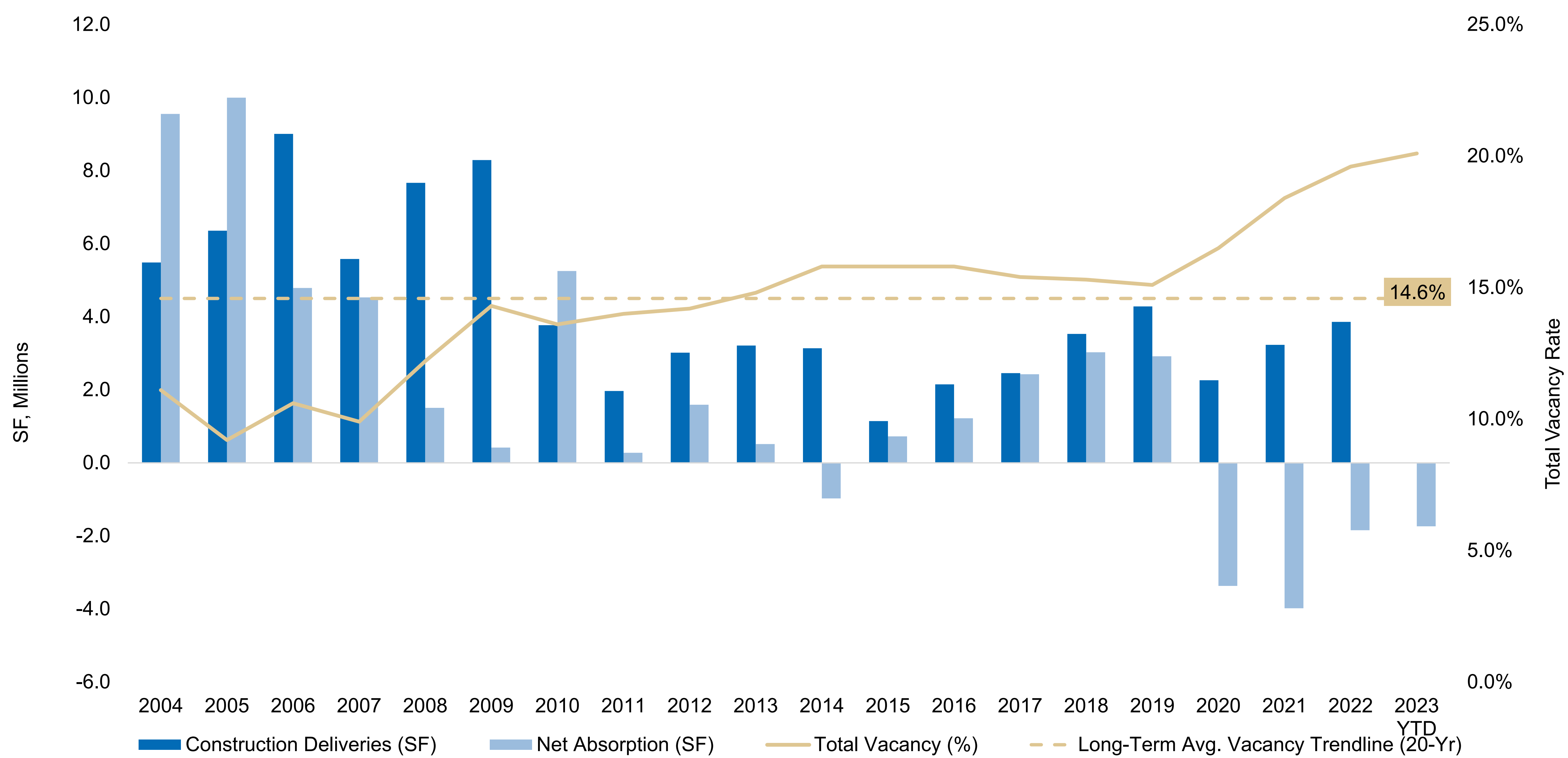
Office Leasing Market Fundamentals

Metrowide Office Vacancy Rises But No New Deliveries Provide Balance

The vacancy rate increased to 20.1% in the third quarter of 2023 from 19.9% in the second quarter of 2023. The lack of new speculative office construction is advantageous in helping to balance supply with waning demand.

Historical Construction Deliveries, Net Absorption, and Vacancy

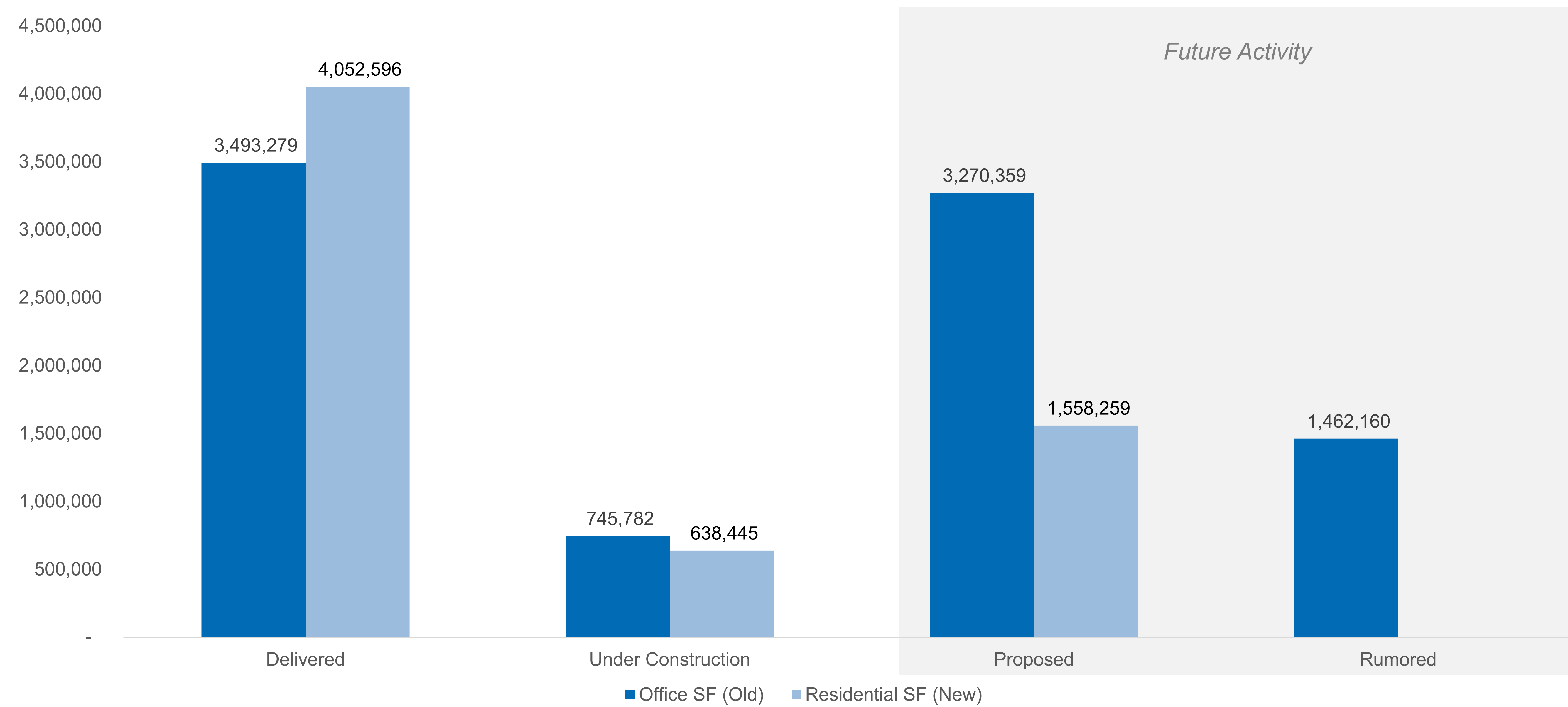


Source: Newmark Research

3.5 Million SF of D.C. Office Has Been Converted To Office Since 2020 (2.7% of Inventory)

Since 2020, 3.5 million square feet of office space has been removed and 4.0 million square feet of multifamily property has been delivered in its place in the District of Columbia. Another 745,782 square feet of office space has been removed from the market's inventory and is currently under renovation to soon become residential in use. Another 3.3 million square feet of office space is proposed to become multifamily.

D.C. Office-To-Residential Conversion Projects, 2020-2023YTD



Source: Newmark Research.

The District of Columbia Will Have Fewer Office Buildings by the Late 2020s

The looming wall of maturing office debt and the increasing share of underwater office assets necessitates that some buildings will be demolished for higher and better use as some borrowers return keys to lenders. This transitional increase in surface area may translate into new pocket parks, private office courtyards, beer gardens, and additional parking.

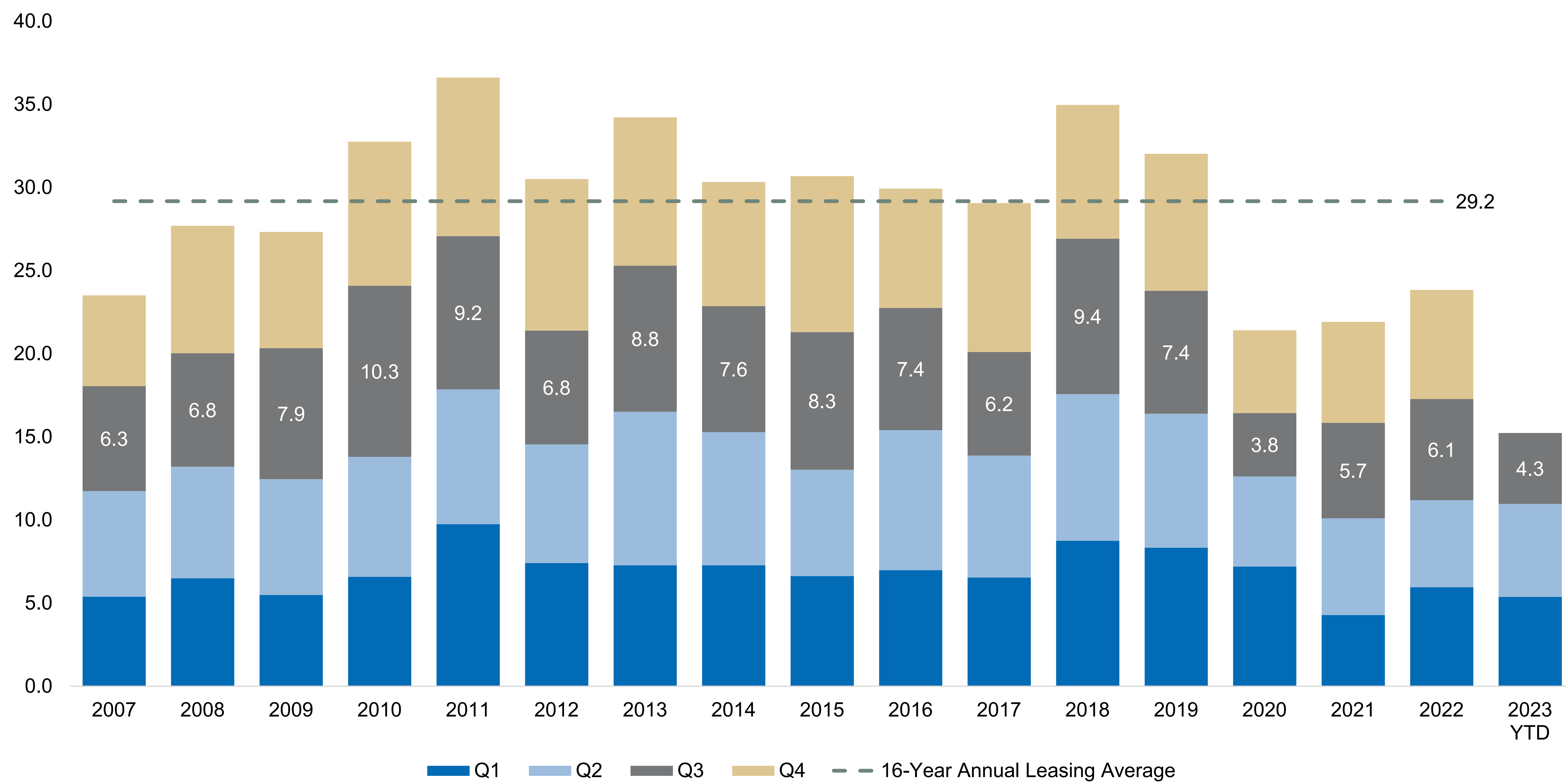
AI Imagines Future D.C. With Less Office Space

Source: Newmark Research, Midjourney

Metrowide Leasing Activity Down From 2022, Still Driven by Renewals

A cloudy economic outlook and the higher cost of capital has prompted many companies to pause, assess current conditions and enact cost-cutting measures where applicable. Year to date, 2023's leasing volume is slightly lower than transaction activity over the last three years.

Total Leasing Activity (msf)

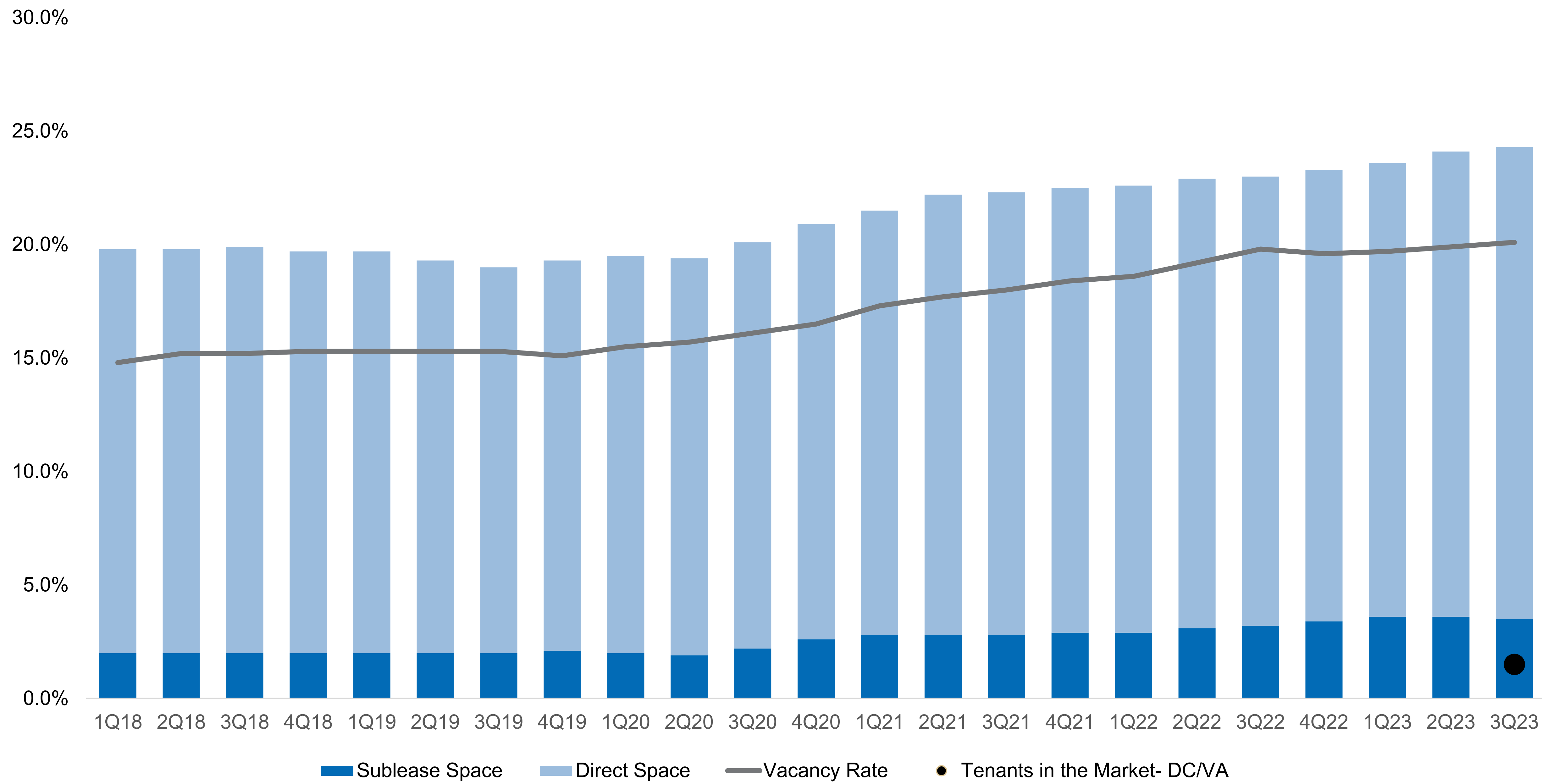


Source: Newmark Research, CoStar

Metrowide Availability Continues to Increase While Tenant Demand Drops

Available space currently sits at a historical high, both in terms of direct space and sublease space. Historical averages land at 15.8% direct space available and 2.4% sublease space available, a total availability of 18.2%. The market currently shows 20.8% direct space available and 3.5% sublease space available, a total availability of 24.3%. This expansion of available space is likely to continue as companies plan long-term office strategies.

Available Space and Tenant Demand as Percent of Overall Market

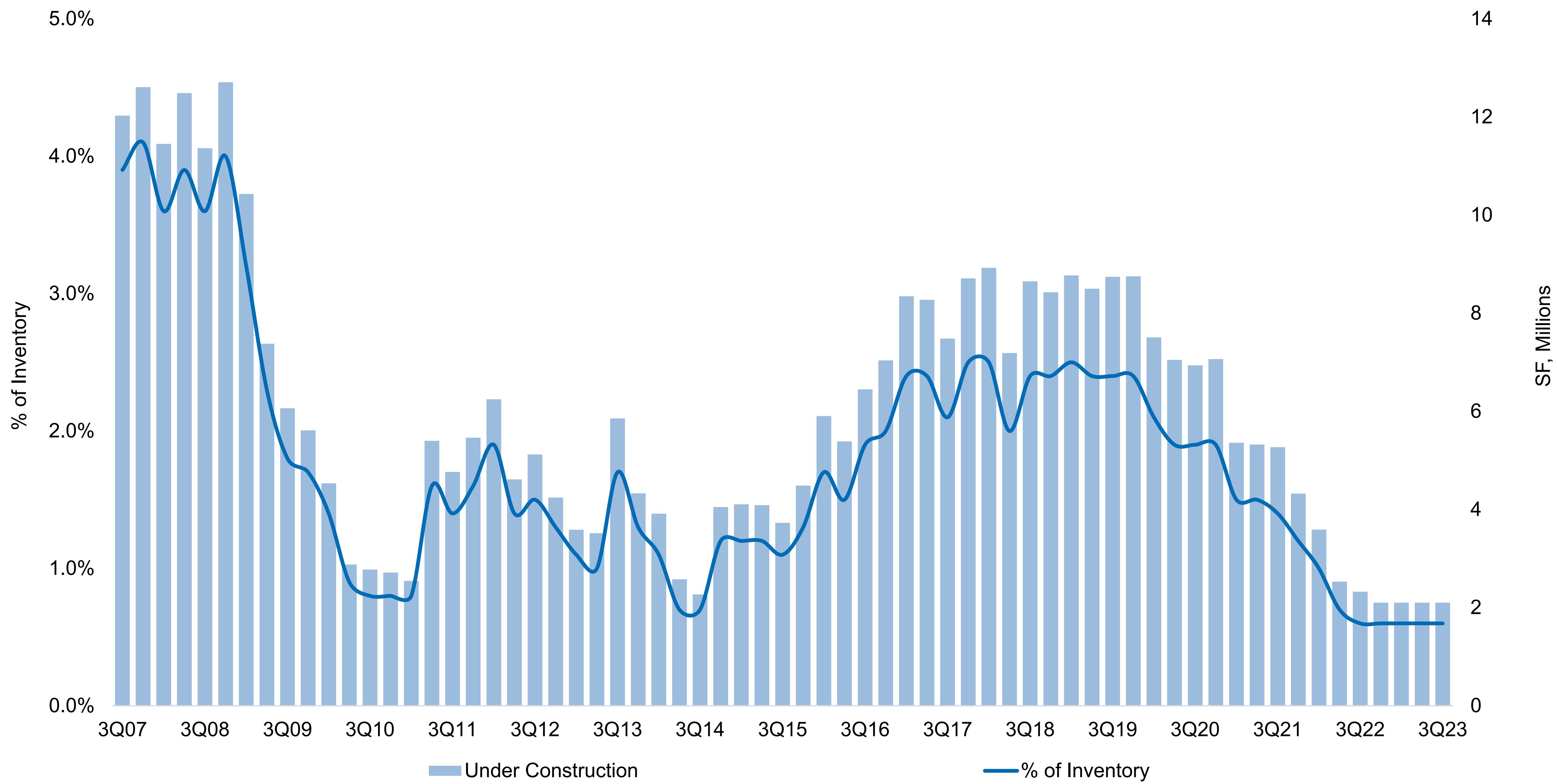


Source: Newmark Research

Metrowide Deliveries and New Construction Soften in 2023

The Washington Metro area development pipeline remains historically low, with no new projects breaking ground or delivering this quarter. There are currently 11 properties under construction, well below the historical average of 29 properties under construction.

Office Under Construction and % of Inventory

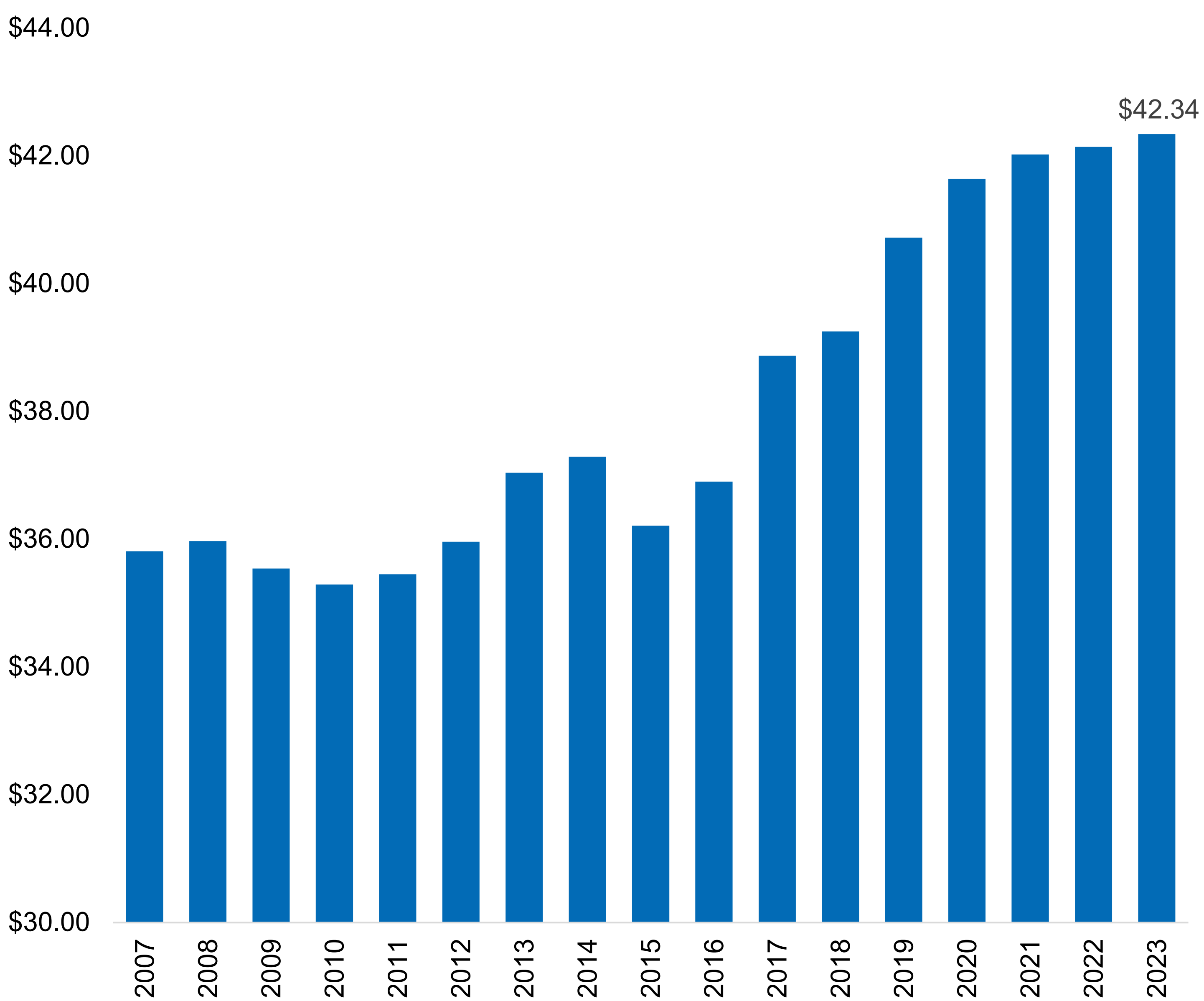


Source: Newmark Research, CoStar

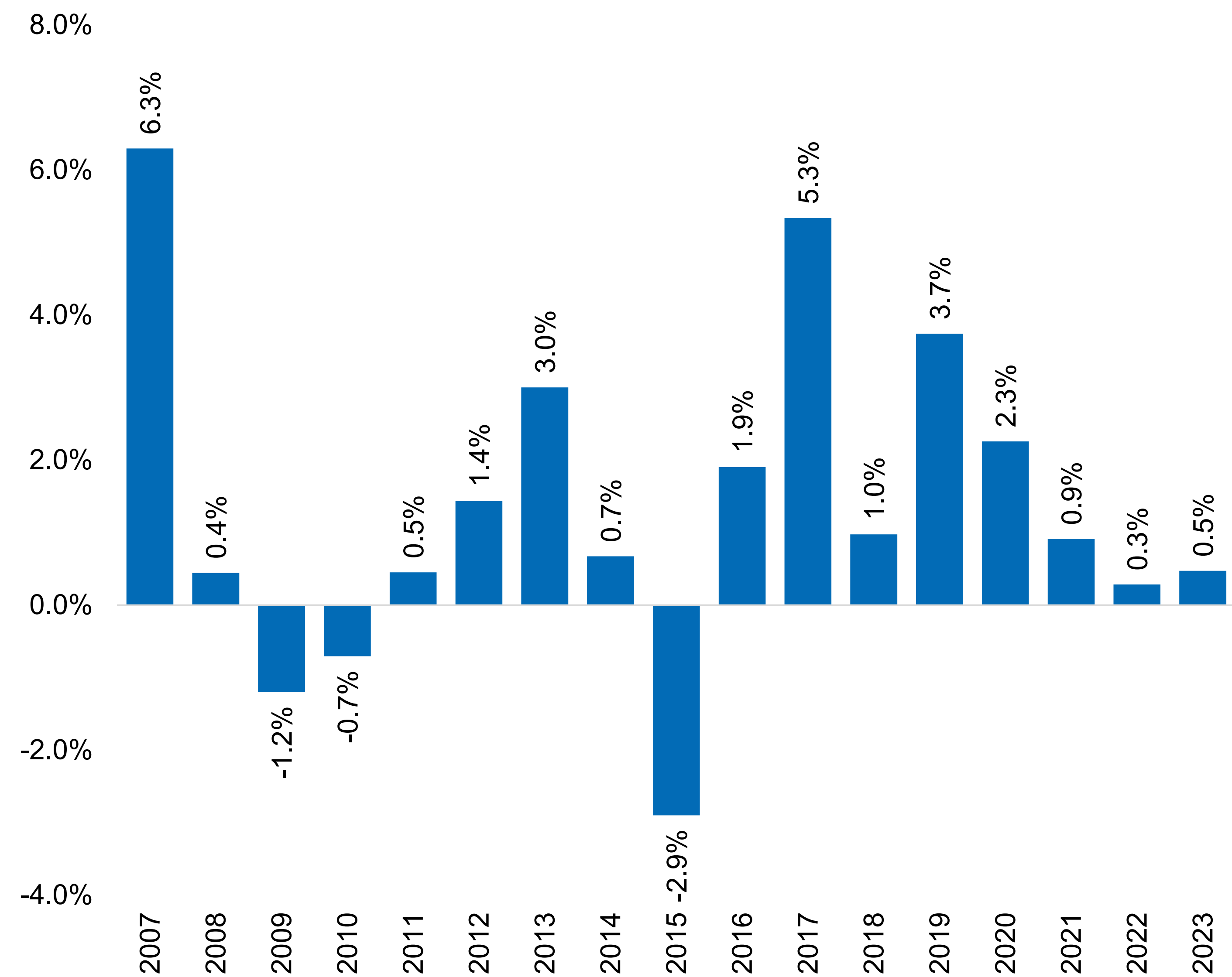
Metrowide Rents Continue to Increase

In past cycles, asking rents have adjusted downward to account for depressed demand, but it often takes many quarters or even years for rates to fall. Year-over-year rental rate growth decelerated in 2023 to 0.5%, a remarkable decrease from the 2.0% YOY average since 2016.

Office Average Asking Rent, $/SF, FS



Year-over-Year Asking Rent Growth Rate

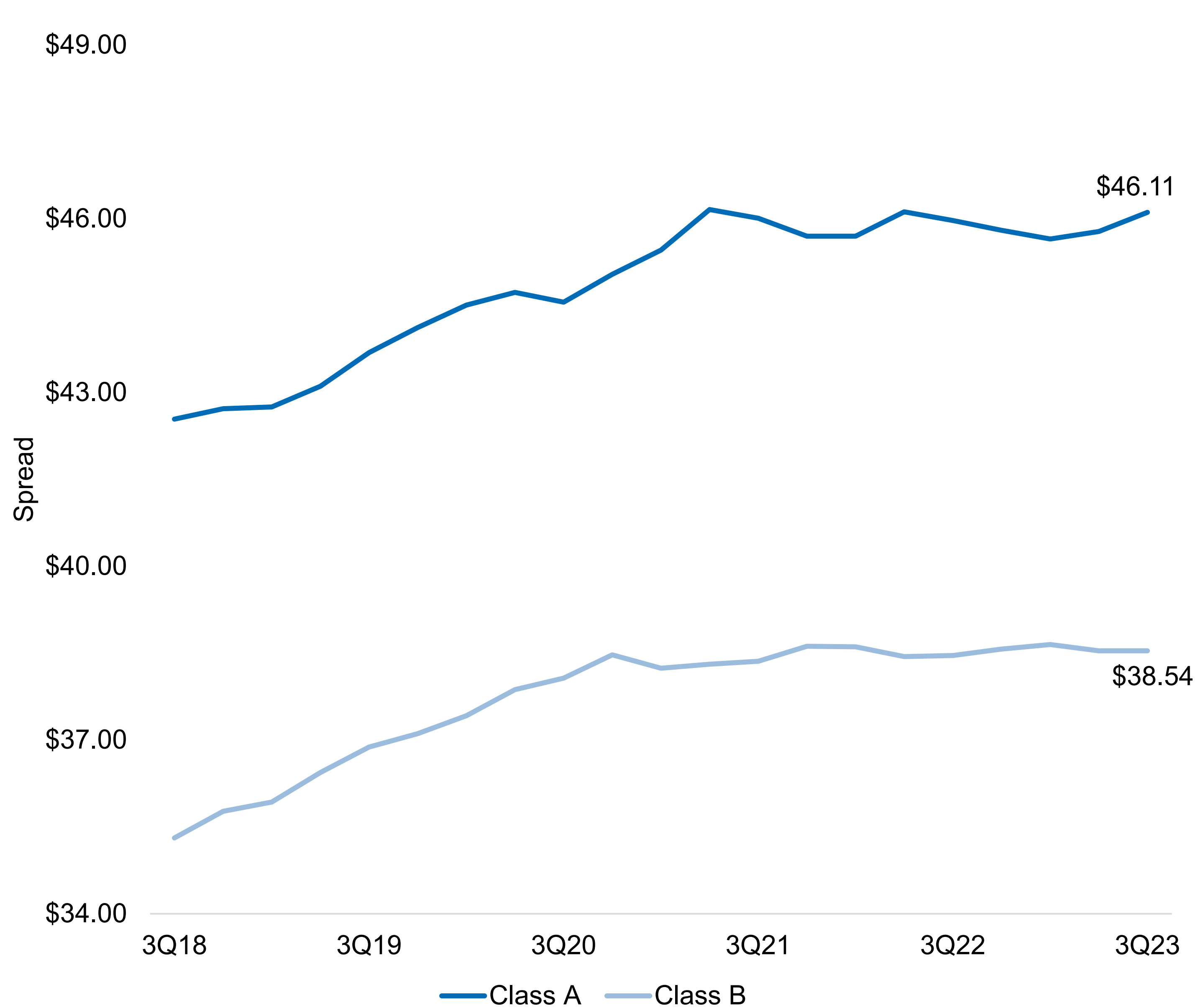


Source: Newmark Research, CoStar

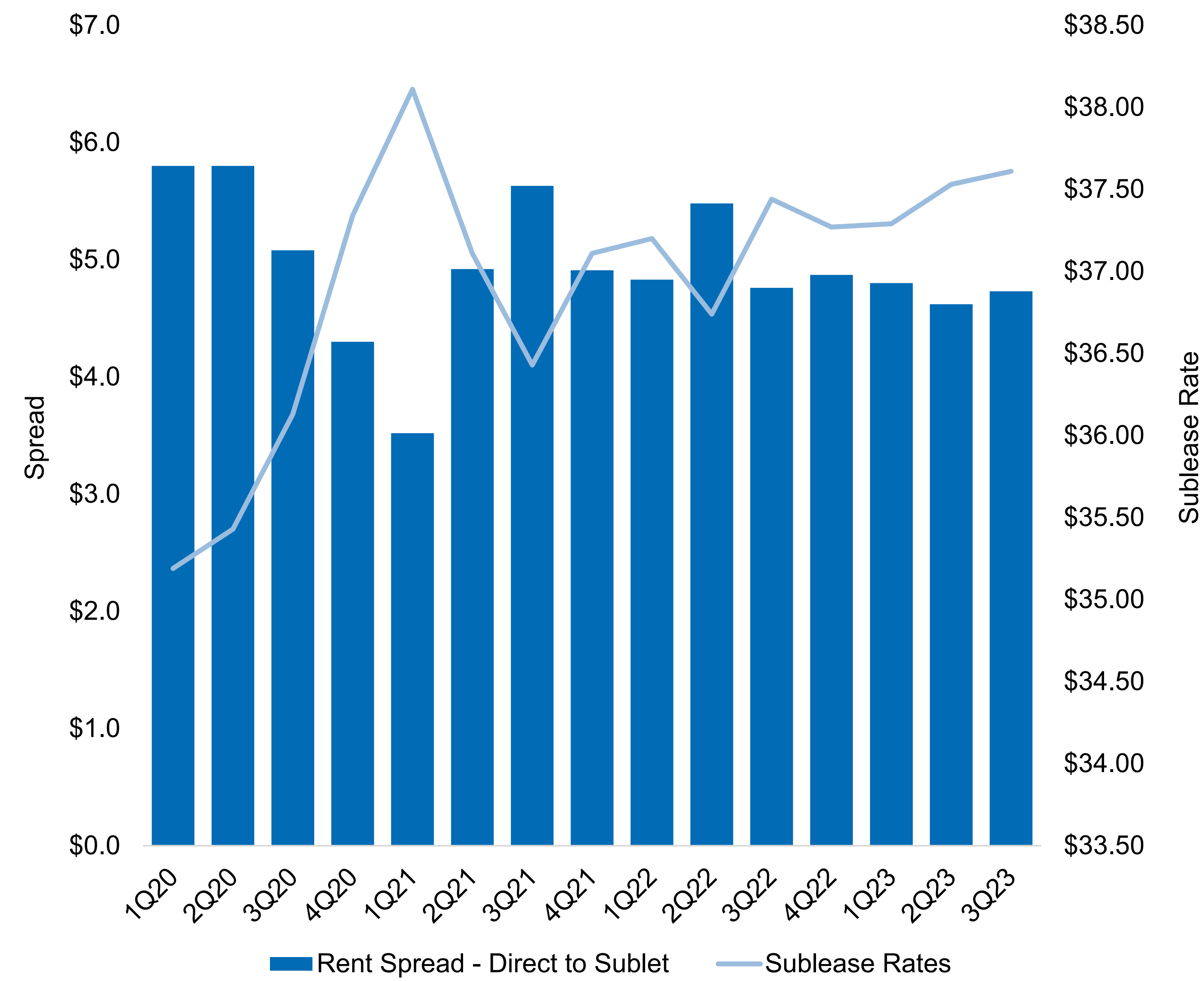
Metrowide Asking Rents Bifurcate Between Class A Growth and Class B Declines

Class A asking rates have increased the past two quarters after remaining stagnant since 2021, reaching $46.11 PSF. This is indicative of the bifurcation of office user demand. Trophy is outperforming all Classes, while Class B and Class C rates will continue to drop as user demand also drops.

Class A and Class B Asking Rents



Sublease Rates

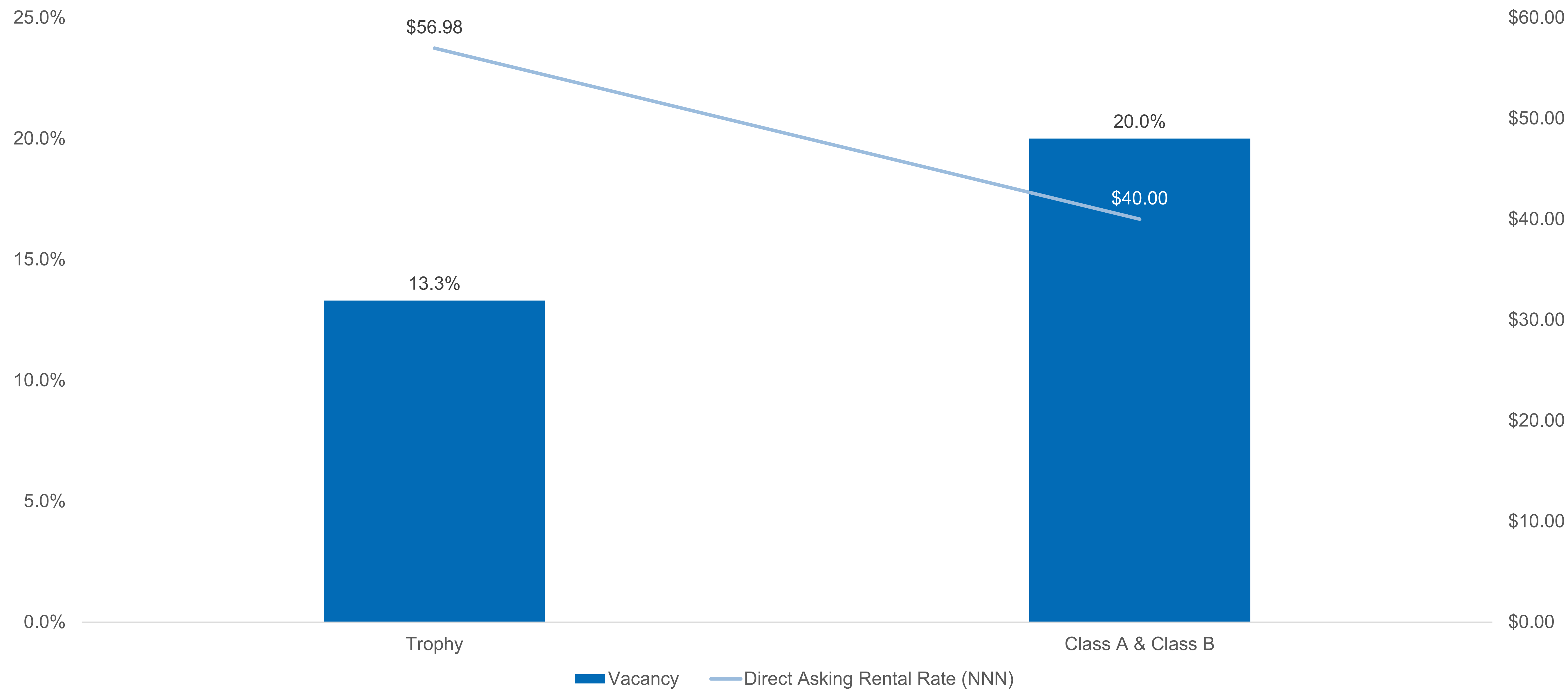


Source: Newmark Research, CoStar

District of Columbia Trophy Office Outperforms Class A & Class B

The District of Columbia, like many other office markets, is experiencing a bifurcation of performance across classes. “Flight to quality” is a pervasive trend and is especially observed among Trophy assets.

Vacancy and Triple Net Rental Rates By Office Class, Q3 2023

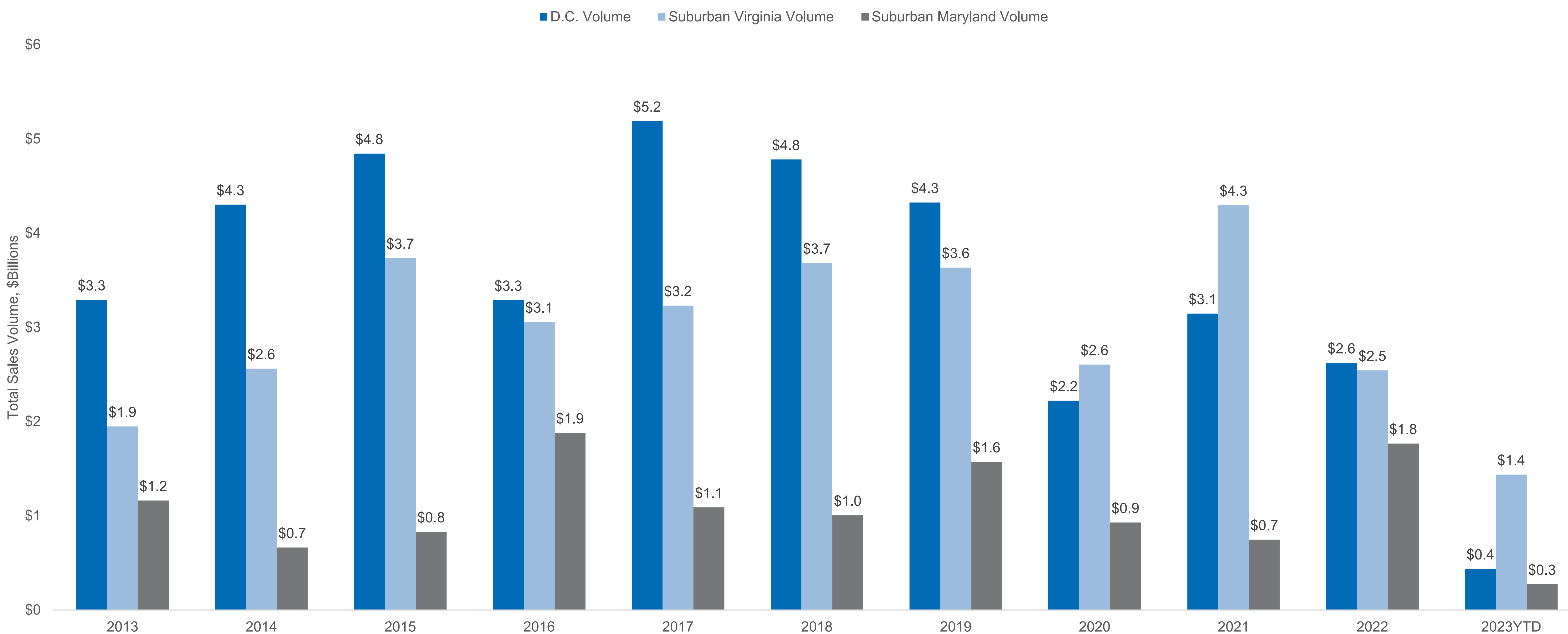


Source: Newmark Research. Class A & B NNN Direct Asking Rent assumes $28 average opex and taxes.

Office Sales Volume in the DMV Region Began Slowing in 2018

The start of the Covid-19 pandemic in 2020 marked a ten-year low in annual office investment volumes, totaling $5.8 Billion for the D.C. metro, including its suburbs in Virginia and Maryland. Over the last decade (2013-2022), average annual office transaction volume was $8.1 Billion for the DMV region. While D.C.'s activity recovered to some extent in 2021 with $3.1B in trades, that same year set the high-water market for office sales in suburban Virginia, with $4.3B in trades.

Annual Office Sales Volume, District of Columbia Compared To Suburban Virginia and Suburban Maryland



Source: Newmark Research, RCA

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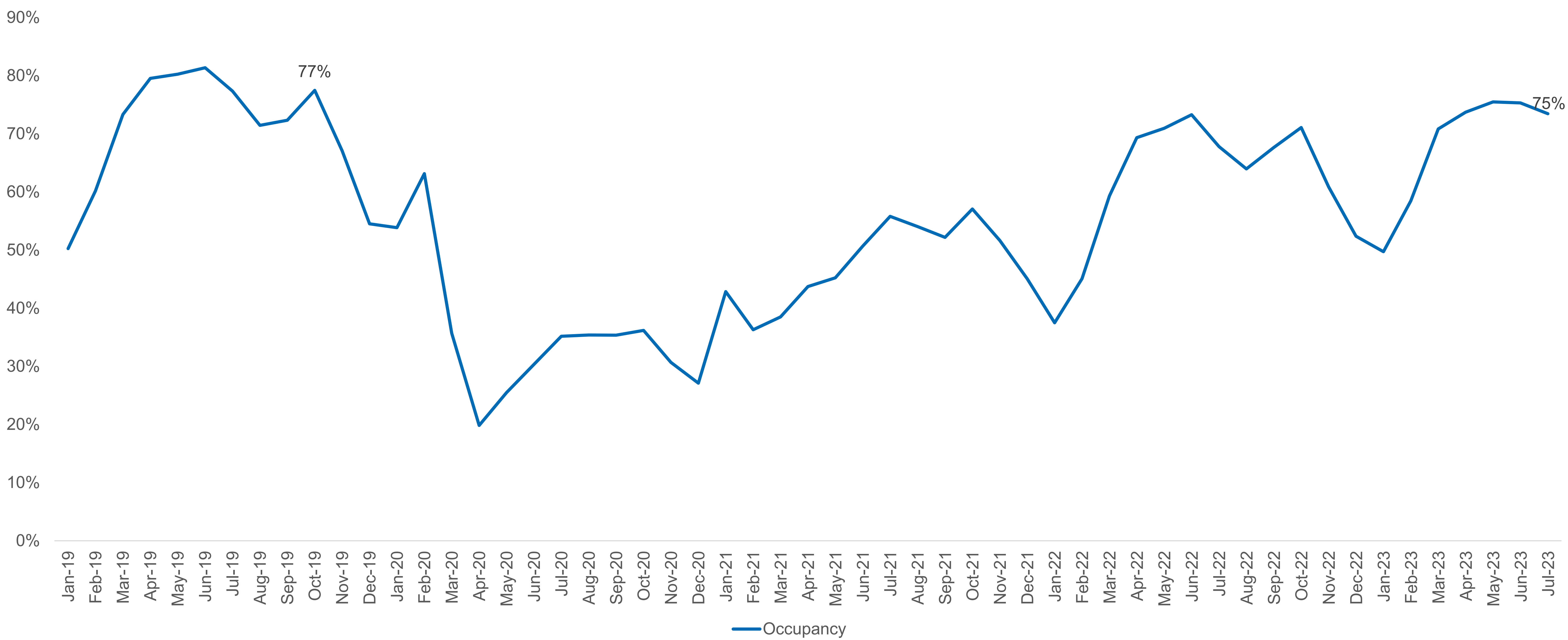
Retail, Tourism And Mobility

Metrowide Tourism Rebounds

As of July 2023, D.C. market hotel demand has grown 17.6% year-over-year. In June 2023, hotel occupancy hit 75.3%--the highest mark since October 2019.

Washington, D.C. Monthly Hotel Occupancy

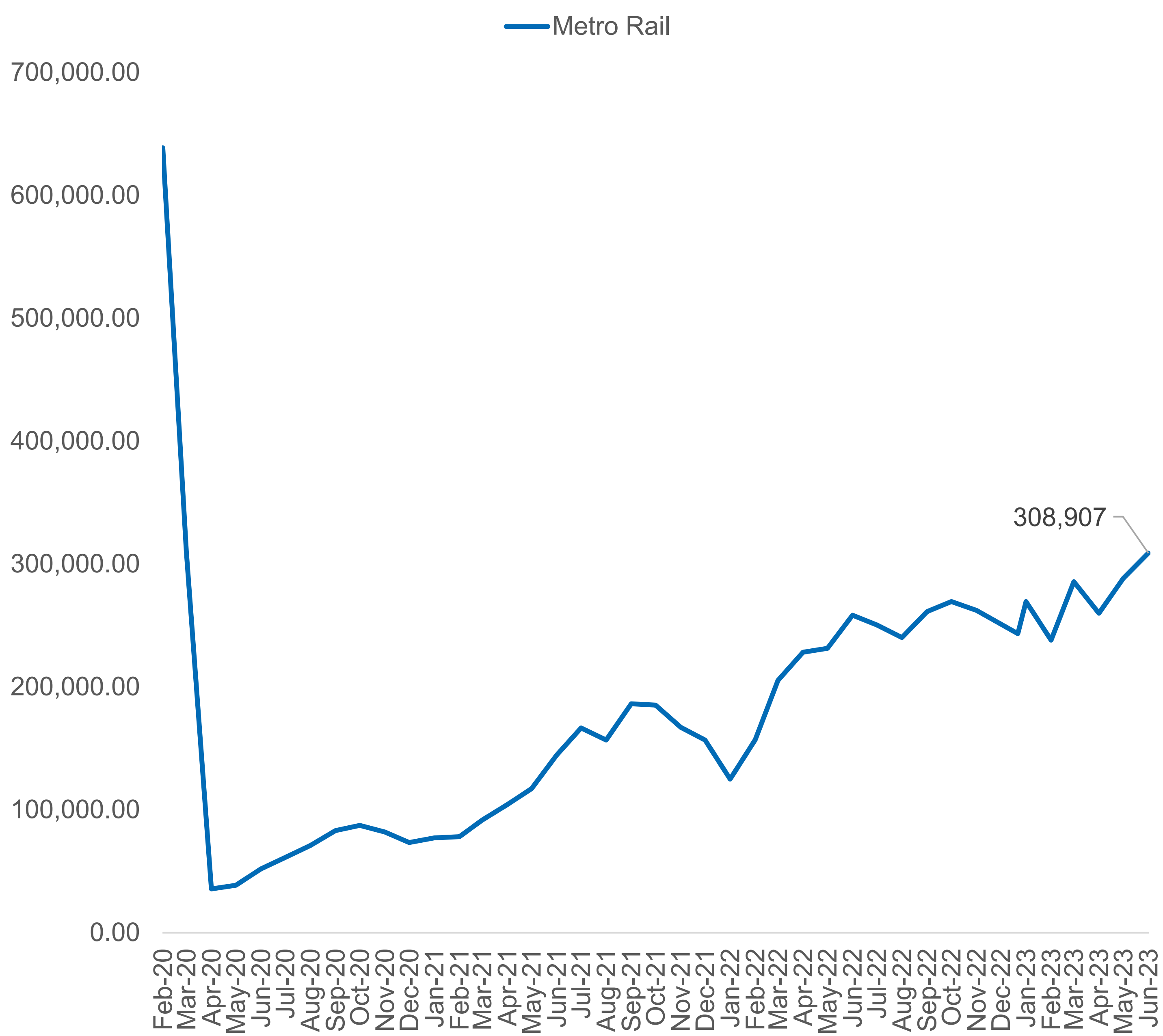


Source: STR, Newmark Research

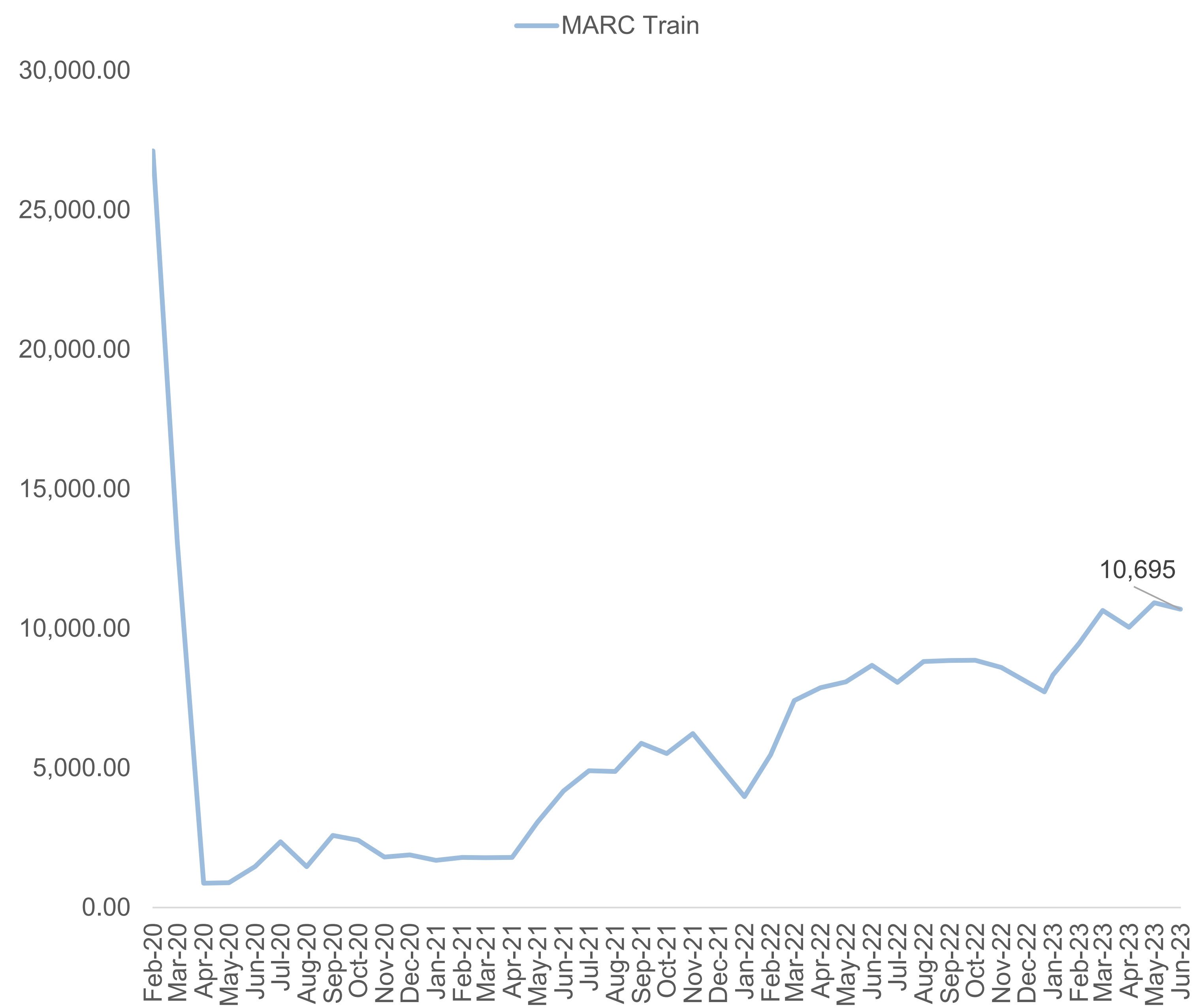
Metrowide Mobility Trends

The modes of transportation that have been most affected by the COVID-19 pandemic are the Washington Metro and the MARC Train, with significant declines in percentages during the initial months of the pandemic. Recovery has been modest for both the Metro Rail and Marc Train recovering 49% and 41% respectively when compared to January 2020.

Metro Rail Average Daily Ridership



MARC Train Average Daily Ridership

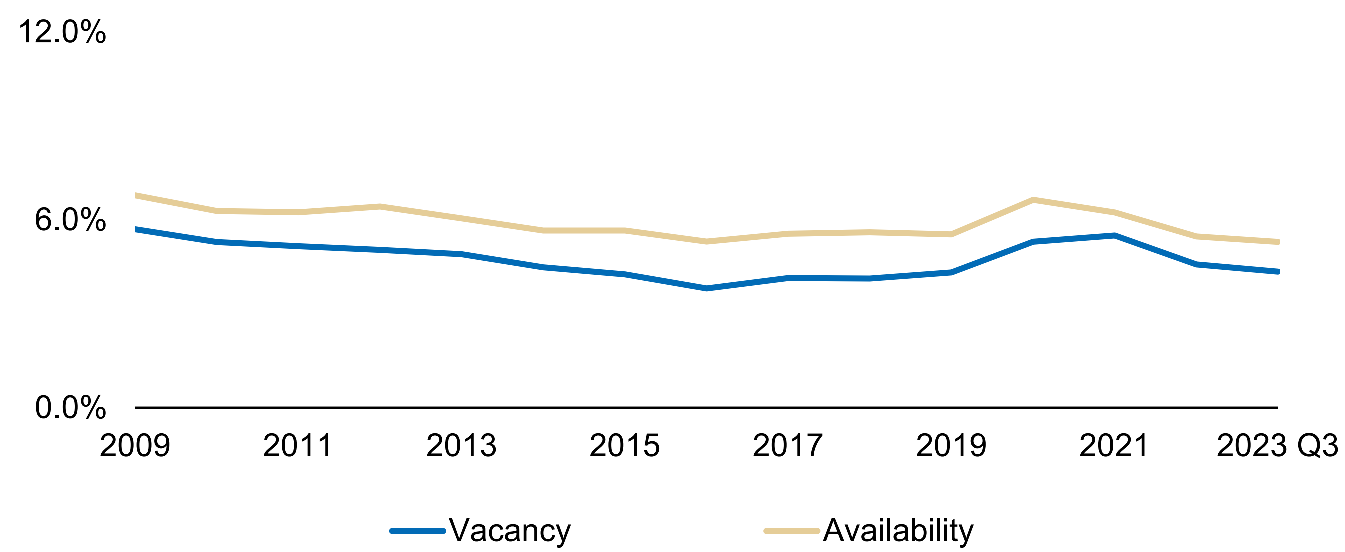


Source: Washington Metro Area Transit Authority, Maryland Transit Authority

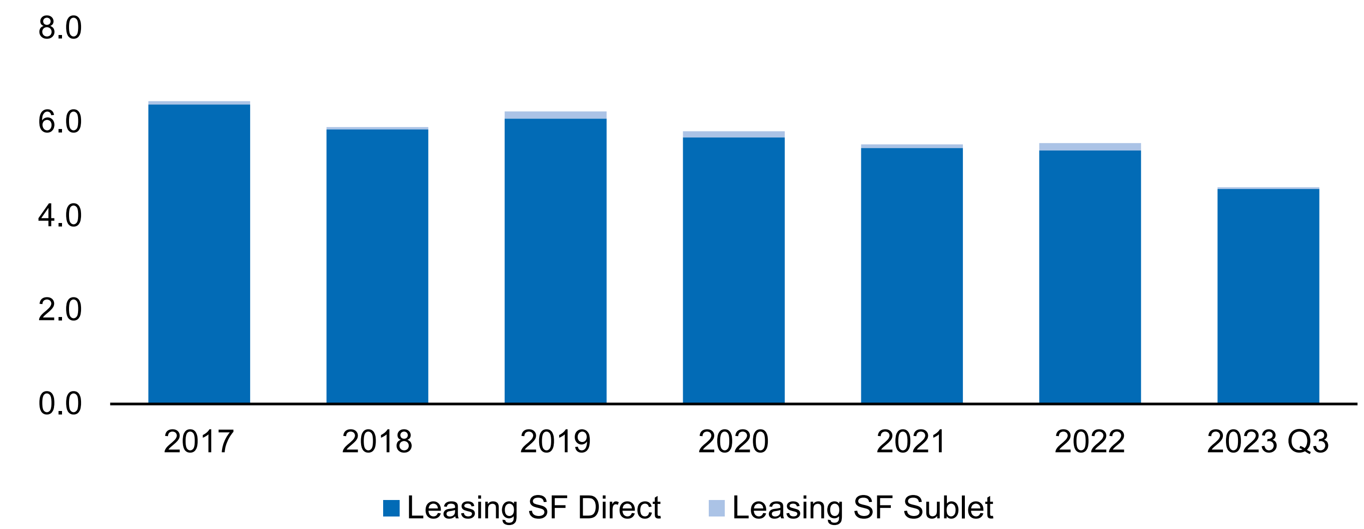
D.C.'s Metrowide Retail Vacancy is 4.3% And Rents Are Growing

The D.C. retail market has strong fundamentals. Vacancy and availability continue to decline, while asking rental rates are at an all-time high of $31.10 NNN per square foot.

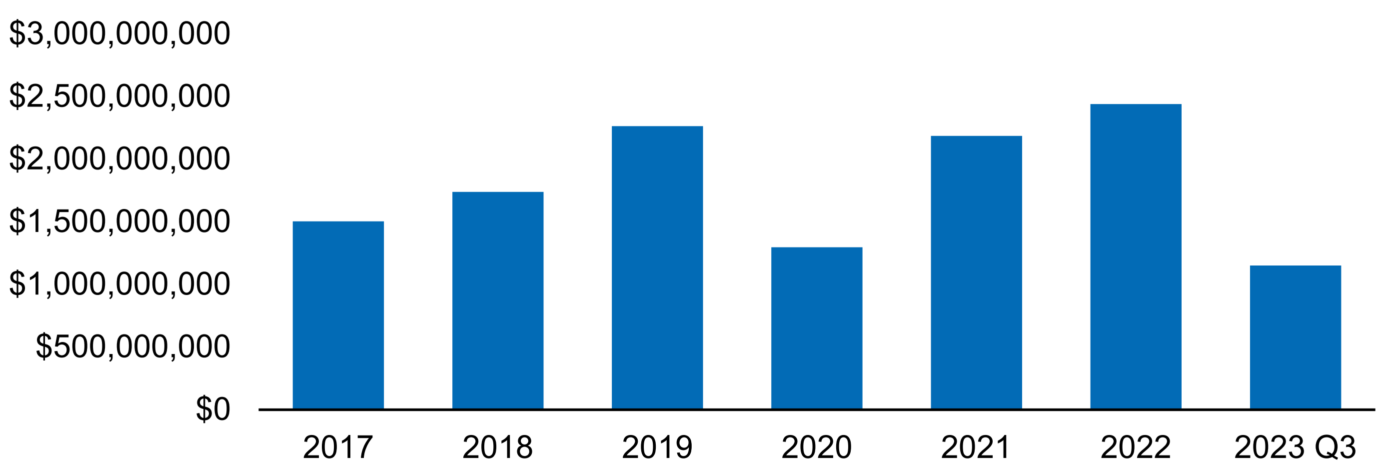
Vacancy and Availability Rates



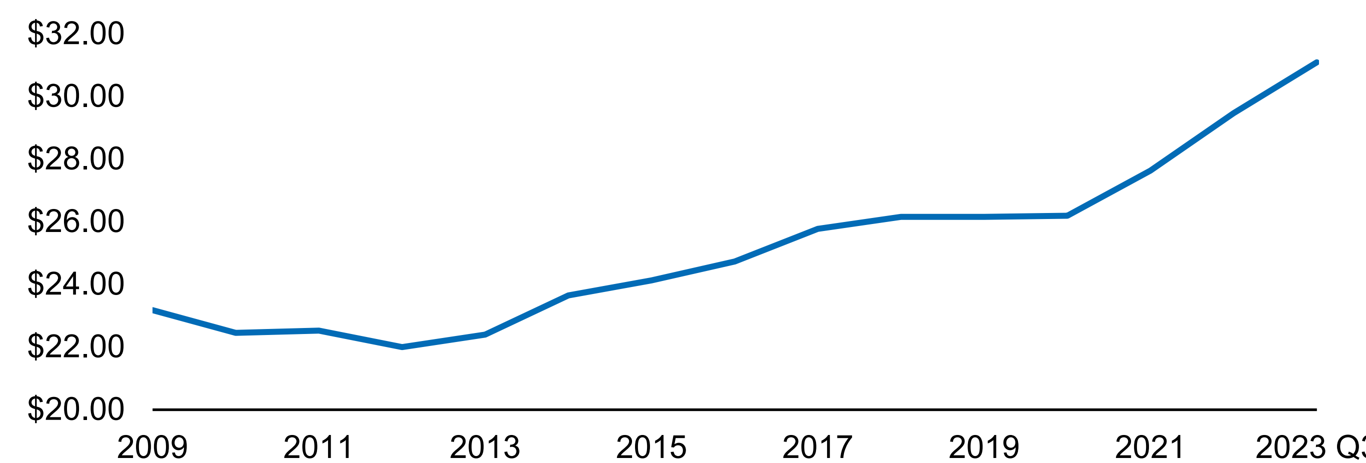
Overall Leasing Activity (SF in millions)



Total Sales Volume



Direct Average Asking Rents (NNN)



Source: Costar, Newmark Research

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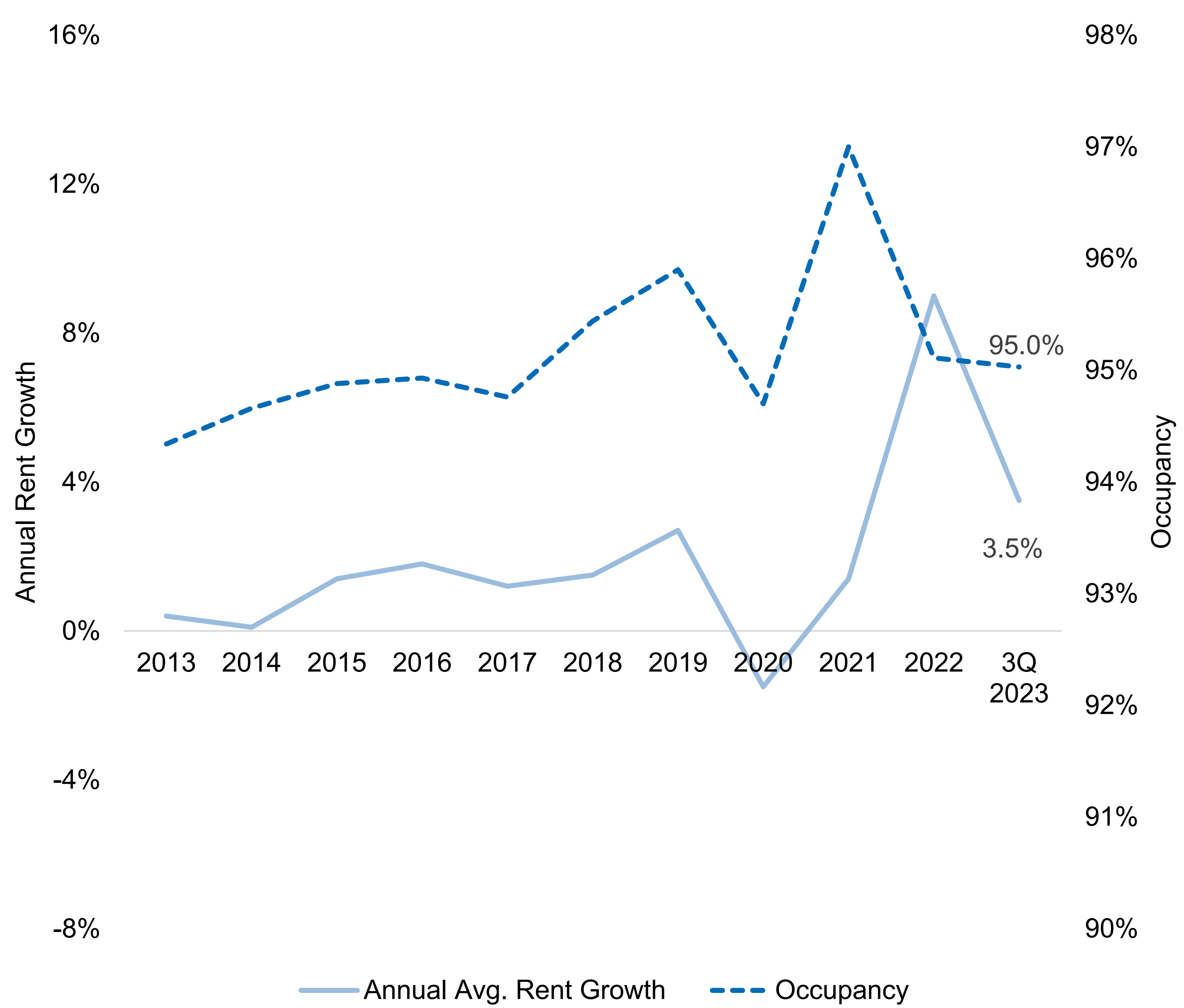
Multifamily

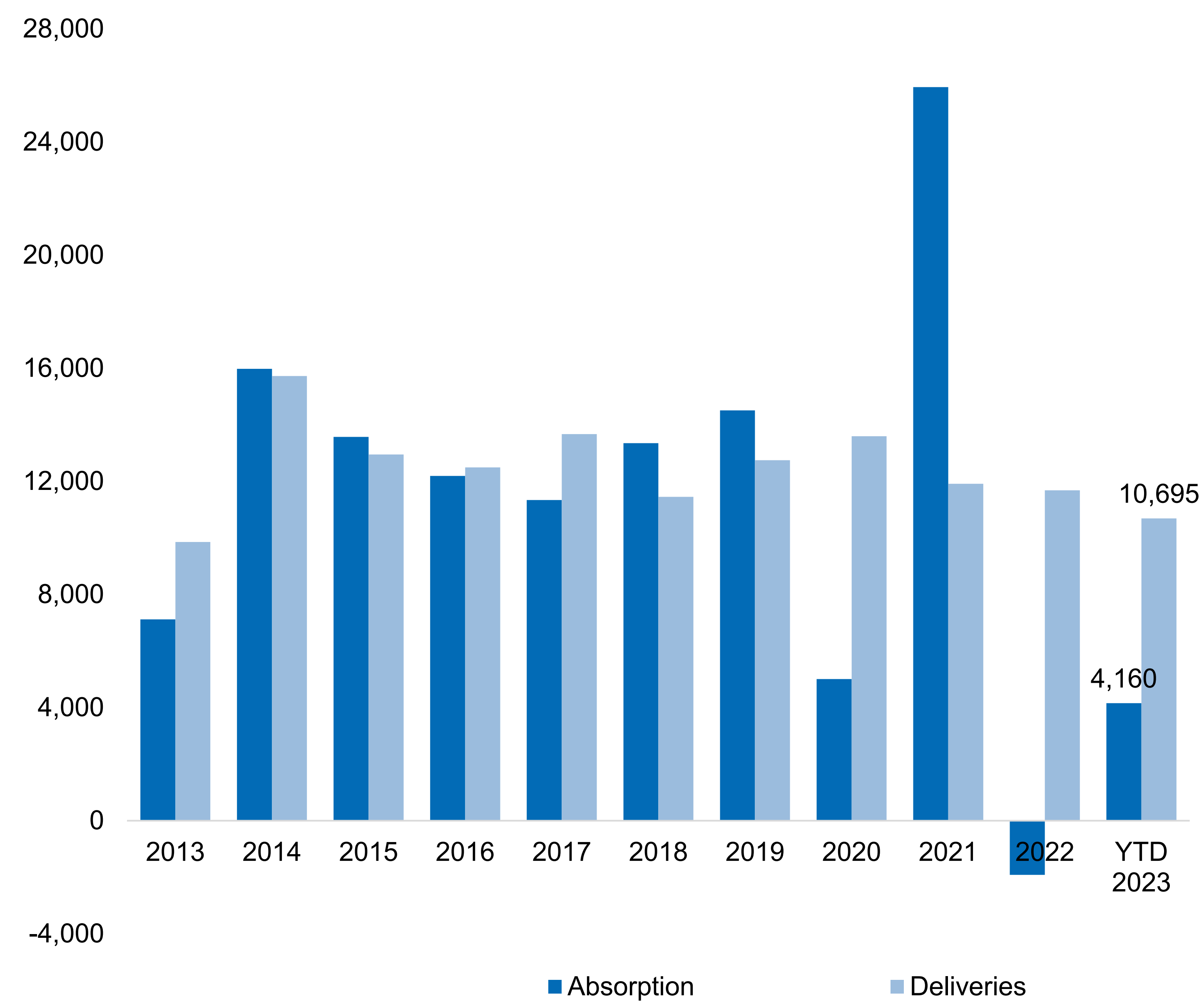
Washington Metro Area Multifamily Market Fundamentals

Washington metro multifamily fundamentals remain strong with record-setting rent growth in 2022 and rent growth remaining strong through the third quarter of 2023. The 12-month growth rate of 3.5% as of the third quarter is well above the 10-year average of 1.8%. Construction deliveries have remained below the 10-year annual average of 12,613 units for the past three years. As the supply pipeline tapers and occupancy remains high, rents are expected to maintain healthy levels of growth.

Effective Rents and Occupancy



Deliveries and Absorption (units)



Source: Newmark Research, Axiometrics

Washington Metro Area Submarket Statistics – 3Q 2023

Occupancy in the region averages a strong 95.0% despite a significant delivery pipeline over the past several years. Rent growth remains robust across most submarkets, with 19 of the region's 36 submarkets achieving rent growth of 4.0% or higher over the past year.

Multifamily Statistics by Submarket- As of 3Q 2023

Multifamily Submarket	Effective Rent	Avg. Annual Effective Rent Change	Inventory (Units)	Occupancy	Under Construction (Units)
Bethesda/Chevy Chase	$2,772	2.4%	15,473	95.8%	2,526
Central Alexandria	$1,824	4.2%	12,880	95.7%	901
Central DC	$2,624	4.1%	51,512	95.4%	2,419
College Park/Greenbelt	$1,879	3.7%	11,158	92.3%	-
Columbia Pike	$2,080	3.4%	15,156	96.6%	250
Crystal City/Pentagon City	$2,529	4.3%	15,013	94.7%	2,074
Downtown Silver Spring	$2,052	3.4%	14,533	95.4%	553
East Alexandria	$2,269	4.4%	21,087	95.6%	1,556
East Silver Spring/Takoma Park/Adelphi	$1,624	4.5%	17,563	96.6%	-
Frederick	$1,885	4.7%	11,973	96.5%	350
Fredericksburg/Stafford	$1,815	1.3%	15,322	94.7%	471
Gaithersburg	$2,003	5.5%	16,620	96.3%	-
Germantown	$2,066	3.6%	8,661	95.2%	-
Hyattsville/Riverdale	$1,648	3.1%	17,345	94.8%	1,282
Landover/Bowie	$1,848	1.9%	19,178	92.8%	1,092
Laurel/Beltsville	$1,726	0.4%	14,876	96.1%	-
Loudoun County	$2,170	6.0%	17,884	95.5%	517
Manassas/Far Southwest Suburbs	$1,886	4.6%	16,059	96.1%	-
Washington Metro	**$2,109**	**3.5%**	**681,684**	**95.0%**	**32,552**

Multifamily Submarket	Effective Rent	Avg. Annual Effective Rent Change	Inventory (Units)	Occupancy	Under Construction (Units)
Navy Yard/Capitol South	$2,731	3.1%	22,962	93.4%	4,509
North Arlington	$2,766	4.2%	32,298	96.5%	2,288
North Central DC	$1,915	4.9%	18,960	95.7%	1,264
Northeast DC	$2,343	1.8%	28,515	93.9%	2,472
Northeast Montgomery County	$1,818	5.9%	9,312	95.8%	387
Northwest DC	$2,408	6.1%	22,420	96.3%	2,058
Reston/Herndon	$2,241	4.3%	21,968	95.3%	1,255
Rockville/North Bethesda	$2,281	4.0%	21,691	95.0%	670
Seven Corners/Baileys Crossroads/Annandale	$1,980	4.0%	11,682	96.1%	604
South Fairfax County	$2,009	4.0%	23,390	95.7%	366
South Prince George's County/St. Charles	$1,638	1.3%	22,586	92.4%	-
Southeast DC	$1,401	3.7%	29,588	94.2%	987
Suitland/District Heights/Capitol Heights	$1,586	0.3%	17,628	89.8%	327
Tysons Corner/Falls Church/Merrifield	$2,271	3.7%	29,082	95.7%	1,019
West Alexandria	$1,842	0.0%	11,412	94.9%	-
West Fairfax County	$2,198	4.1%	17,581	96.1%	-
Wheaton/Aspen Hill	$1,968	4.6%	13,389	95.4%	-
Woodbridge/Dale City	$1,827	1.0%	14,927	95.1%	355
Washington Metro	**$2,109**	**3.5%**	**681,684**	**95.0%**	**32,552**

Source: Newmark Research, Axiometrics

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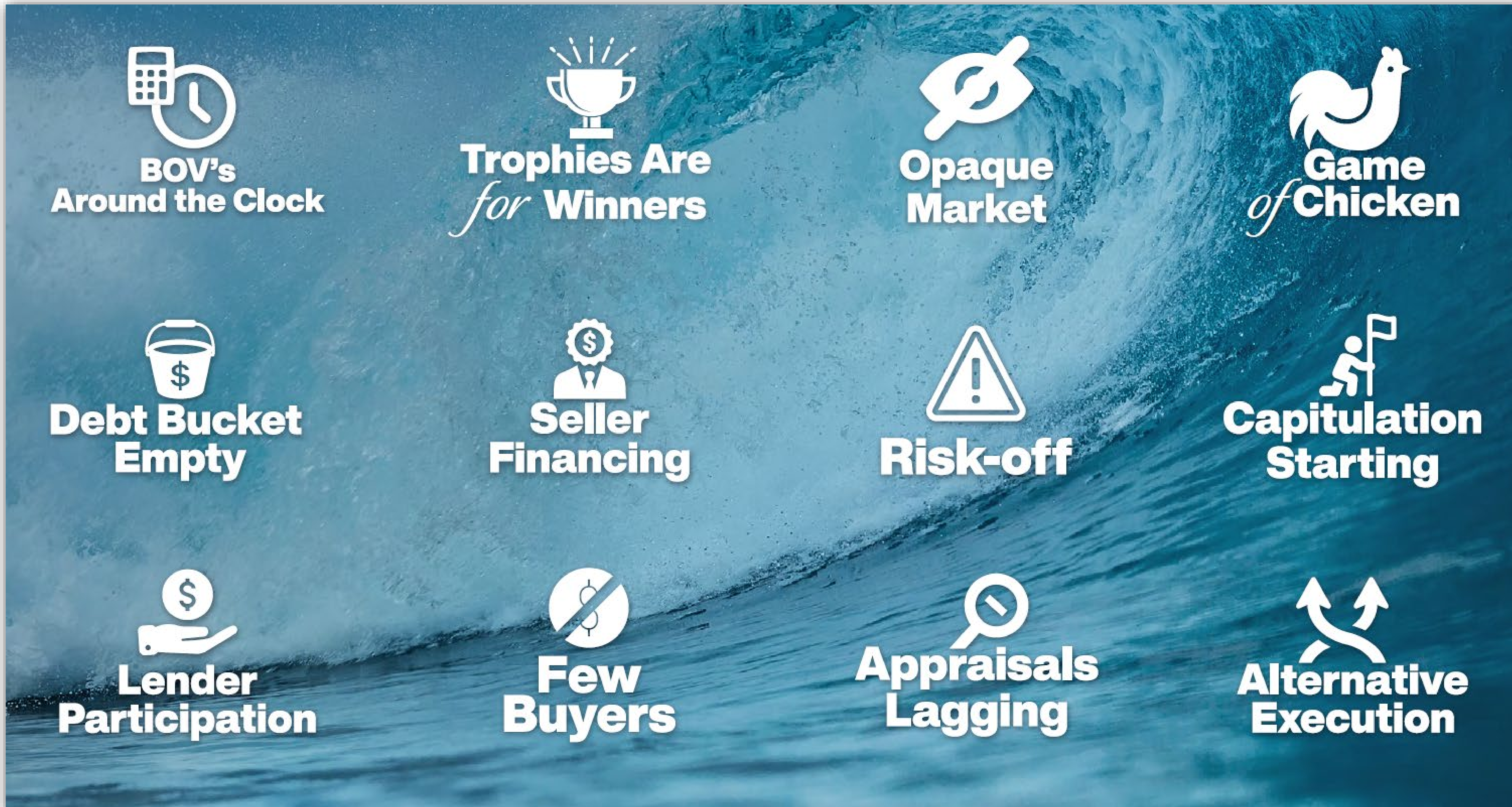
Q&A

Current Trends



Newmark Brokerage & Advisory

Lisa Benjamin
Senior Managing Director
202.471.3009
lisa.benjamin@nmrk.com

Newmark Research

Carolyn Bates
Mid-Atlantic Research Director
202.312.5757
carolyn.bates@nmrk.com

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