

INVESTMENT FORECAST

Office
Washington, D.C. Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2025

Downtown D.C. Navigates Headwinds as Prominent Suburbs Drive Retail Investment Recovery

Limited supply and tourism growth aid retail stability. The Washington, D.C., metro faces widening submarket disparities as government downsizing and office lease terminations weigh on consumer spending and weekday foot traffic. The District, recording retail vacancy above 5 percent entering 2025, will likely be most affected. Rising tourism should support future retailer demand, however, with the CBD's hotel occupancy above 70 percent last year for the first time since 2019 and an upcoming \$800 million renovation planned for Capital One Arena. Minimal new supply will also help contain vacancy risks. Deliveries are concentrated in Virginia's suburbs, where rates are nearly 200 basis points lower. Steadier population and job growth in these areas and affluent Maryland suburbs like Bethesda — which posted record multifamily net absorption last year — should uphold tenant demand. Meanwhile, vacancy in lower-income parts of Montgomery and Prince George's counties remains above 7 percent, but declined in 2024 as grocery stores, discount retailers and fitness centers backfilled spaces. Experiential concepts moving in this year should strengthen fundamentals.

Investor focus shifts beyond the urban core. Spending from high-income households and historically low vacancy should sustain buyer demand in Virginia's suburbs, especially among institutions, which grew more active last year. Grocery- and discount-anchored centers will likely stay targets due to their reliable cash flows. Meanwhile, power centers — coming off their strongest post-pandemic leasing year — may draw yield-seeking investors. Buyers looking for lower entry costs may focus on assets near emerging mixed-use developments in Maryland, such as Waldorf Station and expansion efforts at National Harbor, which will support job creation and retailer demand.

2025 MARKET FORECAST

+0.1%



EMPLOYMENT: Public-sector job cuts will limit net employment gains in 2025 to 5,000 positions, though private-sector hiring in industries such as health care is expected to hold up better.

800,000
sq. ft.



CONSTRUCTION: Completions will more than double last year's record-low delivery total, but new supply will stay below the metro's past decade's annual average of 1.2 million square feet.

+30 bps



VACANCY: Affluent consumers and steady net in-migration help offset a federal hiring slowdown. The metro's vacancy reaches 5.0 percent in 2025, in line with its 4.9 percent historical average.

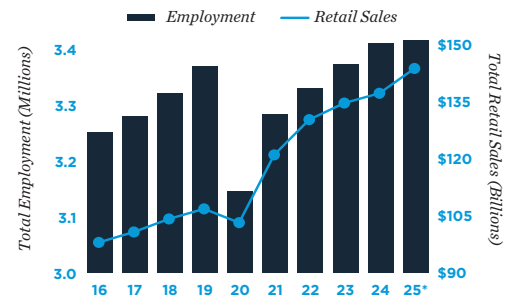
+1.1%



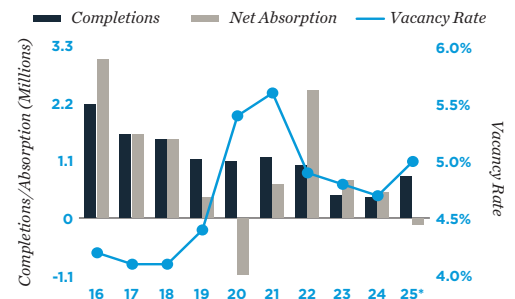
RENT: Rent growth remains modest amid rising vacancy, while tighter conditions in Virginia should drive stronger gains. The metro's average asking rent will reach \$29.75 per square foot.

INVESTMENT: Among submarkets nationwide with over 10 million square feet of inventory, Southeast Fairfax County was one of five to sustain rent growth above 4 percent for four straight years, drawing investors.

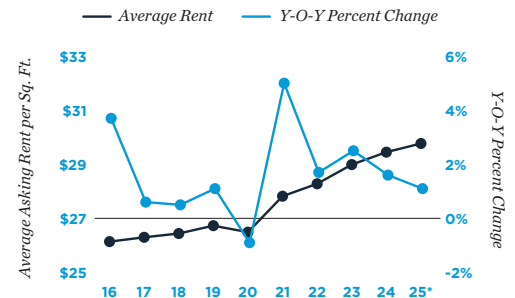
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.