INVESTMENT FORECAST

Office

Washington, D.C. Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

2025

D.C. Faces Mixed Outlook as Return-to-Office Mandates Coincide With Federal Downsizing

Modern offices outperform as older stock struggles. Washington, D.C.'s office market faces a potential turning point as private sector and federal in-office work mandates converge with record-low development, slowing vacancy expansion after years of post-pandemic increases. A higher government in-office attendance rate may attract adjacent private-sector tenants in Downtown D.C. With post-2010 buildings maintaining roughly 10 percent vacancy in early 2025, tenants might increasingly opt for slightly older Class A assets. Virginia suburbs are well positioned to benefit from their relatively newer Class B/C inventory, where post-2000-built properties sustain vacancy near 5 percent — less than half that of older stock. Amazon's return-to-office plans and notable regional presence could further bolster demand from support firms. However, with the federal government occupying nearly 30 percent of the D.C. metro's office stock and the GSA potentially terminating up to 7,500 leases in coming years, uncertainty remains. While private demand may mitigate some of the impact, widespread agency downsizing could pressure federally dominated submarkets with older, outdated properties.

Core and value-add strategies spark interest. With leasing activity expected to remain steady among private sector firms in Downtown D.C., institutions seeking stable cash flows will likely sustain demand for premium, well-leased assets. Buyers deploying under $30 million are expected to favor value-add strategies in both Downtown D.C. and select Virginia suburbs. Last year, high-vacancy buildings in these markets traded around $100 to $200 per square foot, providing a favorable cost basis to accommodate substantial capital improvements. Meanwhile, private buyers may focus on sub-50,000-square-foot assets, where metrowide vacancy for such properties held near 5 percent in 2024.

2025 MARKET FORECAST

+0.1% — **EMPLOYMENT:** Federal downsizing efforts are expected to weigh on employment gains this year, with the metro's workforce projected to grow by just 5,000 net positions, driven by private sector growth.

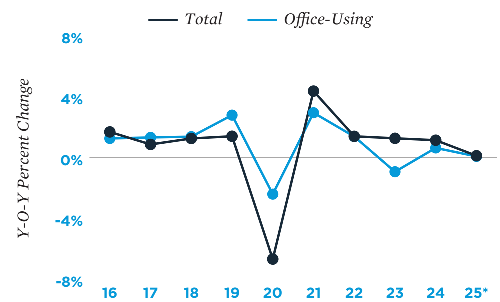
400,000 *sq. ft.* — **CONSTRUCTION:** With only 400,000 square feet set to deliver this year, annual supply additions will hit a historic low, marking the first time completions fall below 1 million square feet since before 2007.

+50 bps — **VACANCY:** Limited new supply helps ease vacancy pressures, but government space reductions will push the metro's rate to 21.3 percent. Still, the pace of increase is set to slow compared with 2024.

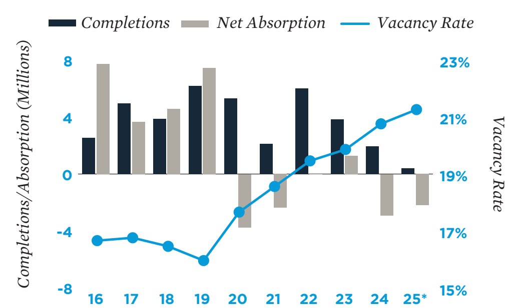
-1.1% — **RENT:** Historically elevated vacancy will push rents down. The metro's average asking rent hits $37.50 per square foot by year-end, ranking as the sixth highest among major U.S. markets.

INVESTMENT: *Buyers targeting well-leased, lower-tier properties in Virginia towns, such as Manassas and Reston, should remain active, as local Class B/C vacancy fell over 200 basis points last year to record lows.*

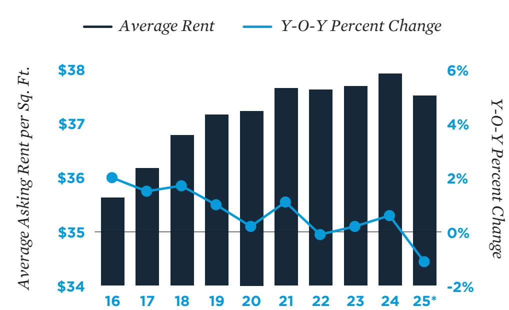
Employment Trends



Supply and Demand



Rent Trends



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