

## The Middle-Class Office Building:

*Affordable Downtown Locations Disappearing but Plentiful Options in Overlooked Markets*

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### BACKGROUND:

Not every tenant has the budget to seek out trophy office space. Many non-profit and trade association clients, who are mission focused, seek to keep their overhead low, forgoing some building amenities. Washington, DC has traditionally offered an abundant supply of older Class B space to serve these tenants.

But these budget-minded tenants are not the only ones to see the potential in Class B buildings. In recent years, developers have taken advantage of market dynamics and demand to reposition or redevelop many of these older structures—undertaking extensive renovations that command premium rents as A+ or Trophy buildings. Since 2013, more than five buildings a year have been repositioned from Class B to Class A in DC.

As the inventory of affordable Class B space decreases, the price pressure of demand is pushing rental rates beyond the reach of many former tenants who are feeling the pinch when leases come up for renewal. Since 2015, DC Class B inventory has decreased by 1.7 million square feet compared to DC Trophy / Class A inventory, which has increased by 3.3 million square feet. At the same time, Class B rental rates have increased by 14 percent from \$42.40 per square foot to \$49.00 per square foot. The Class B building of yesteryear is becoming extinct – along with it the “affordable” Class B downtown office building. Examples of this are:

Address	Submarket	Old Rent (Class-B)	New Rent (Trophy/Class-A)
2001 M Street, NW	CBD	\$48.00 PSF	\$75.00 PSF
900 19th Street, NW	CBD	\$51.00 PSF	\$80.00 PSF
1900 N Street, NW	CBD	\$42.00 PSF	\$80.00 PSF
1800 K Street, NW	CBD	\$48.00 PSF	\$70.00 PSF
2100 Pennsylvania Avenue, NW	CBD	\$45.00 PSF	\$82.00 PSF
2030 M Street, NW	CBD	\$45.00 PSF	\$78.00 PSF
1900 M Street, NW	CBD	\$41.00 PSF	\$78.00 PSF
2000 K Street, NW	CBD	\$51.00 PSF	\$80.00 PSF
1726 M Street, NW	CBD	\$39.00 PSF	\$80.00 PSF
1901 L Street, NW	CBD	\$46.00 PSF	\$78.00 PSF
1050 17th Street, NW	CBD	\$36.00 PSF	78.00 PSF
2100 K Street, NW	CBD	\$40.00 PSF	\$78.00 PSF
2100 L Street, NW	CBD	\$34.00 PSF	\$80.00 PSF
1101 16th Street, NW	CBD	\$39.00 PSF	\$80.00 PSF
1150 15th Street, NW	East End	\$43.00 PSF	\$75.00 PSF
1201 New York Avenue, NW	East End	\$45.00 PSF	\$65.00 PSF
888 16th Street, NW	East End	\$45.00 PSF	\$85.00 PSF
1401 New York Avenue, NW	East End	\$46.00 PSF	\$70.00 PSF
1301 Pennsylvania Avenue, NW	East End	\$45.00 PSF	90.00 PSF
800 K Street, NW	East End	\$45.00 PSF	\$78.00 PSF
1201 Pennsylvania Avenue, NW	East End	\$50.00 PSF	\$62.00 PSF

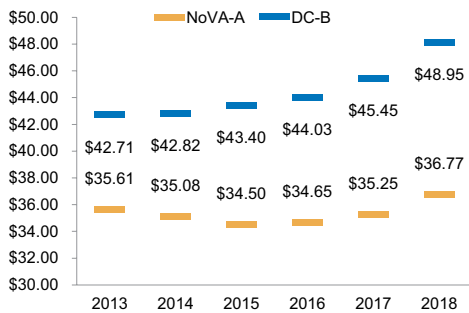
“The Class B building of yesteryear is becoming extinct – along with it the “affordable” Class B downtown office building.”

## CREATIVE REAL ESTATE SOLUTIONS

Historically, there has been an abundance of older, Class B buildings sprinkled within some of Washington's overlooked markets. While these locations lack the Washington, DC address, they keep these clients close to the downtown locations they want with a price tag they can afford. These market realities create opportunities to explore creative real estate solutions for clients who fit this profile.

Comprehensive evaluations of costs and benefits may find many tenants of Class B buildings in Washington, DC expanding their search to include other submarkets like Silver Spring, Crystal City, and the Rosslyn-Ballston corridor in either Class B or Class A buildings. What they find there may even surprise industry veterans — the transportation connectivity and broad amenity base of these hubs can rival the best neighborhoods in the city and may prove even more convenient for staff and clients. Rental rates may be a driving factors given that the average cost for Class B space in Washington, DC is \$49.00 per square foot versus \$37.00 per square foot for Class A space in Northern Virginia. In these instances, Tenants will be able to enjoy Class A space in these markets for less cost than Class B space in DC.

Direct Asking Rental Rates



**\$36.77**  
Class A  
No. VA

**\$48.95**  
Class B  
DC

Rental Rates  
2018

“Rental rates may be a driving factor...

the average cost for

Class B space in DC is

**\$49.00 PSF**

vs

**\$37.00 PSF for**

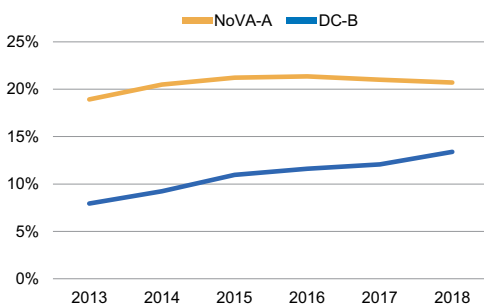
Class A space

in Northern

Virginia.

”

Total Vacancy Rates

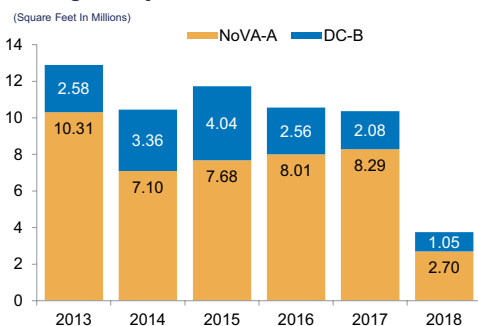


**21%**  
Class A  
No. VA

**12%**  
Class B  
DC

Vacancy Rates  
2018

Leasing Activity



**2.70M**  
Class A  
No. VA

**1.05M**  
Class B  
DC

Leasing Activity  
2018

## OVERLOOKED MARKETS

Over the next five to 10 years, this shifting dynamics of DC Class B space and the emergence of these overlooked markets has the potential to change the real estate landscape in the greater Washington, DC area.

### CRYSTAL CITY



Blue &  
Yellow  
Lines



#### Class-B

*Space:* 6.675M SF  
*Rent:* \$29.00-\$35.00 PSF

#### Class-A

5M SF  
\$35.00-\$45.00 PSF

### ROSSLYN



Blue,  
Orange  
& Yellow  
Lines

#### Class-B

*Space:* 3.6M SF  
*Rent:* \$33.00-\$40.00 PSF

#### Class-A

6.5M SF  
\$40.00-\$49.00 PSF

### SILVER SPRING



Red Line  
& Purple  
Line  
(Under  
Construction)



Silver  
Spring  
Transit  
Center



#### Class-B

*Space:* 2.1M SF  
*Rent:* \$23.00-\$28.00 PSF

#### Class-A

4.2M SF  
\$28.00-\$35.00 PSF

For the budget conscious tenant in downtown Washington, DC, the next five to 10 years could prove to be a challenge. Whether a non-profit or for-profit, tenants are going to have to make some very tough business decisions about where their company/organization should be located. The days of \$45.00 per square foot space in a quality Class B downtown DC office building may be coming to an end. While this isn't necessarily a new phenomenon, many tenants have sought out more affordable markets for years – but as the data shows there is new pressure that the DC Class B market has not yet felt.



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