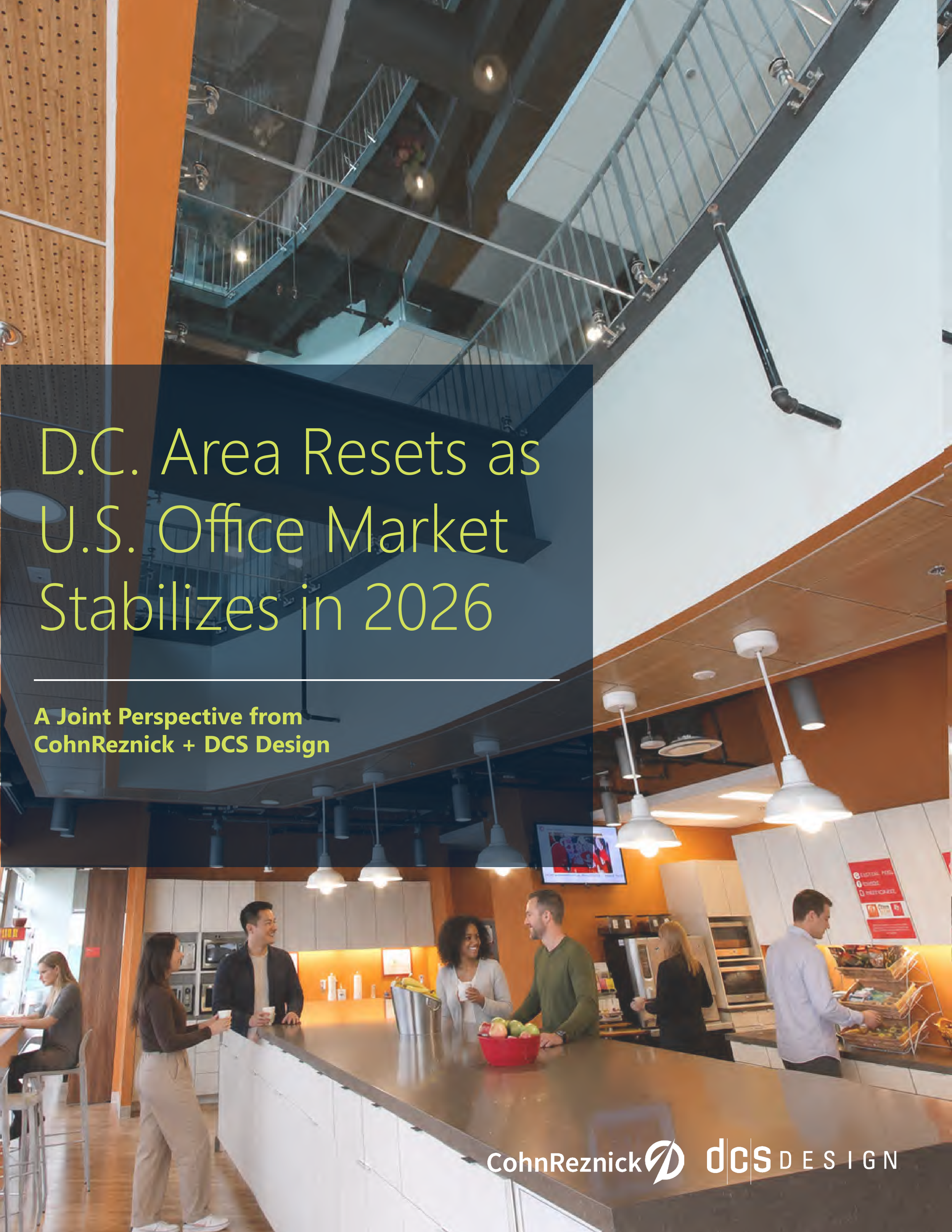


D.C. Area Resets as U.S. Office Market Stabilizes in 2026

A Joint Perspective from CohnReznick + DCS Design

Headquarters office of Ramboll, located in Arlington, Virginia. Designed by DCS Design.

Table of Contents

D.C. Area Resets as U.S. Office Market Stabilizes in 2026

By: Marcia Calhoun, Vice President, DCS Design, Ltd
Mia Thompson, CPA, Partner, CohnReznick LLP
Devin Goudy, CPA, Assurance Senior Manager, CohnReznick LLP

Introduction

The Washington D.C. Metropolitan Area, encompassing the District of Columbia, Northern Virginia, and Suburban Maryland, remains one of the largest and most economically significant regions in the United States. It is characterized by a high-value, knowledge-driven economy supported by a diverse mix of industries. The region's economic foundation is anchored by several key sectors: government, professional and business services, education, health services, technology, and defense. These industries collectively benefit from the region's longstanding competitive advantages, including a substantial federal presence, a highly educated and skilled labor force, and continued growth in digital infrastructure.

The D.C. Metropolitan Area continues to benefit from being a national hub for public-sector decision-making and federal procurement, underpinning a broad ecosystem of contractors, legal advisors, cybersecurity firms, and other specialized business services. In addition, the region is supported by a highly educated workforce; more than half of adults across the Greater Washington corridor hold at least a bachelor's degree, and the Metro Area's median income remains materially above national averages.

Despite a challenging market cycle over the past six years, the U.S. office market entered a new growth phase in 2026, with demand turning positive for the first time since the pandemic. As companies continue to refine their workplace strategies, many companies and employees are increasingly recognizing the benefits of centralized office environments for collaboration, mentorship, culture, innovation, and relationship building. This shift is particularly evident among younger workers.

The market is gradually transitioning from a prolonged period of post-pandemic contraction to measured recovery. This shift is supported by strong demand for high-quality office space, historically low levels of new construction, and renewed leasing activity driven by growing tenant confidence. Together, these factors are helping restore balance to the market and laying the foundation for continued improvement throughout 2026 and into 2027.

These themes were reinforced during CohnReznick's State-of-the-Market presentation featuring Keith Waters, Ph.D., of George Mason University's Center for Regional Analysis. The D.C. Metro Economic Outlook event drew strong attendance across commercial real estate, financial services, government contracting, and nonprofit sectors. The broad cross-sector interest underscores the importance of the Washington Metropolitan Area's economic outlook to investors, operators, and other stakeholders across the region.

The National Market versus the Washington Metropolitan Area

National office market fundamentals continued to improve throughout 2025 with net absorption totaling +2.5 million square feet during the second half of the year, the strongest consecutive quarterly performance since before the pandemic. In contrast, the Washington, D.C. Metropolitan Region recorded negative net absorption of approximately 1.2 million square feet over the same period.

The District of Columbia accounted for much of the region's negative absorption in 2025. The decline coincided with significant reductions in the federal workforce, which contributed to a loss of nearly 108,000 federal jobs between 2025 and 2026, bringing total federal employment to its lowest level in more than three decades. As workforce reductions, deferred resignations, and agency consolidations took effect, office demand weakened across both the District of Columbia and Maryland.

The impact has also extended beyond the public sector. Job losses and reduced hiring activity among government contractors have further constrained office demand throughout the region. Comparatively, Northern Virginia has remained resilient, supported by its concentration of defense and government contracting firms. A significant share of federal procurement spending, particularly from the Department of Defense which represents the largest source of federal contracting expenditure, continues to support employment and leasing activity in the Northern Virginia market.

Negative absorption across the Washington Metro Area has also been influenced by demographic and affordability challenges. Elevated housing costs, economic uncertainty, and outmigration have weighed heavily on population growth in the region. Historically, private-sector government contractors have played a key role in stabilizing the region's economy and housing market. However, slower growth and declining employment within the sector over the past five years have weakened that stabilizing influence.

The national vacancy rate declined to 20% in Q4 2025, further supporting a slowly rebounding market. The Washington D.C. Metro Region maintained a slightly higher vacancy rate of approximately 23%. Leasing activity also strengthened considerably, with more than 60 million square feet leased nationally during Q4 2025, the second-highest quarter recorded in the past five years. Leasing volume in the D.C. Metro Area reached approximately 7 million square feet.

Average asking rents also reflected improving market conditions, increasing 2% nationally in Q4 2025. The Washington Metro Area outperformed the national average, posting annual rent growth of approximately 8%, driven by strong demand for Class A properties and continued investment in the modernization and repositioning of Class B assets.

Over the past 12 months, a clear theme of market stabilization and rebalancing has emerged, replacing concerns of further, on-going correction. Forecasts for 2026 and 2027 suggest this positive momentum is likely to continue. However, performance remains uneven across office sectors, with demand increasingly concentrated on high-quality, well-located properties.

The national vacancy rate **declined to 20%** in Q4 2025, further supporting a slowly rebounding market. The Washington D.C. Metro Region maintained a **slightly higher vacancy rate of approximately 23%**.

Repositioned and rebranded office buildings, National Landing Center, located in Arlington, Virginia. Designed by DCS Design.

Flight-to-Quality

Class A properties continue to outperform all other asset classes, leading the market in positive absorption, leasing activity, and rent growth. In 2025, approximately 80% of leasing across the Washington Metropolitan Region as well as nationally occurred in Class A buildings, reflecting strong tenant preference for modern, amenity-rich workplaces. These properties typically feature best-in-class offerings such as premium fitness centers, cafés, wine bars, state-of-the-art conference facilities, outdoor terraces, and access to natural light. Convenient on-site retail and dining options further differentiate these assets in an increasingly competitive market. Most importantly, these premium properties are more than “office space;” they are sought-after destinations for work and social engagement.

Class A office properties recorded 9.2 million square feet of positive net absorption nationally in 2025, with 50 U.S. markets posting occupancy gains. Markets that continued to struggle were largely concentrated in coastal metropolitan areas with significant inventories of older, lower-quality office stock.

In the Washington D.C. region, overall office demand remained uneven, with highly amenitized Class A and Trophy properties capturing the majority of leasing activity. Competition for these premier assets is expected to intensify as the national office construction pipeline has fallen to its lowest level in more than 25 years.

Best-in-class office assets are not only desirable workplaces for tenants and attractive investments for owners, they also generate meaningful economic benefits for surrounding communities. By attracting high-quality employers and supporting additional investment in nearby residential, retail, and public spaces, these properties often serve as catalysts for broader neighborhood growth and revitalization.

Making an A an A+

The landmark 600 13th Street occupies a full city block in downtown Washington, D.C., serving as a prominent presence within the city’s commercial core. Despite its distinction — including a bright, classically inspired contemporary lobby and a spacious two-story atrium — the building’s 3,000-square-foot concourse level remained underutilized. Lacking windows, constrained by low ceilings, and characterized by an uninviting subterranean atmosphere, the space was largely relegated to storage and back-of-house mechanical and electrical functions.

In response to the demands of today’s highly competitive Class A office market, ownership partnered with DCS Design to transform the underutilized concourse level into The Library, a dynamic tenant amenity hub featuring a lounge and coffee bar, conference room, game room, private workspaces, and an adjacent yoga and meditation studio. Designed with flexibility in mind, the space supports a wide range of uses, from focused individual work and informal collaboration to large meetings, town halls, and corporate events. The transformation has elevated the tenant experience while further reinforcing the property’s premier Class A positioning.

(Below) The redesigned “Library” amenity space. (Bottom left) The unusable concourse level prior to the redesign. (Bottom right) The “Library” features multiple seating areas and functions, including a casual gathering area. Designed by DCS Design.

The Strength of "The B"

As tenants and investors continue to compete for a limited supply of premier assets, opportunities are increasingly emerging for well-positioned Class B properties. To remain competitive, owners are investing in upgrades which narrow the gap between Class B and Class A buildings, including enhanced lobbies, tenant lounges, modern fitness centers, grab-and-go marketplaces and cafés, conference facilities, outdoor gathering spaces, and pre-designed spec suites.

While securing Class A and Trophy space often requires tenants to commit early through lease renewals or pre-leasing limited new construction inventory, repositioned Class B properties can offer greater flexibility and more attractive economics. Landlords frequently offer incentives such as free rent, lower rental rates, and enhanced tenant improvement (TI) allowances. Lease flexibility is also translating into stronger workplace utilization. According to Kastle Systems, highly amenitized Class B buildings across 47 states achieved 75% peak-day occupancy (Tuesday through Thursday) during fourth quarter 2025, while utilization in the Washington, D.C. Metro Area averaged a still-healthy 65%.

A Waterfront Workplace Transformation

Waterfront at Washingtonian in Gaithersburg, Maryland, offered an enviable setting long before its recent renovation. Located in the heart of a thriving mixed-use environment with restaurants, shops, entertainment venues and hotels just steps away, the property also boasts panoramic lake views visible throughout the building.

In 2024, KBS retained DCS Design to transform the building's first floor into a hospitality-inspired amenity hub featuring 20,000 square feet of new tenant amenities, including a tenant lounge, fitness center, grab-and-go eatery, conference center and a dramatic two-story lobby that maximizes the property's waterfront setting.

"KBS recognized an opportunity to build on the property's existing strengths and create an experience that resonates with today's tenants. The response was immediate. Within months of completing the renovation, we signed a 120,000-square-foot lease covering five floors. The investment validated our vision and reinforced the value of creating amenity-rich workplaces that support both employee experience and business growth," says Katy Grober, investment manager of Waterfront at Washingtonian, and vice president, investment management at KBS.

Within months of completing the renovation, we signed a 120,000-square-foot lease covering five floors. The investment validated our vision and reinforced the value of creating amenity-rich workplaces that support both employee experience and business growth."

— Katy Grober, Investment Manager of Waterfront at Washingtonian, Vice President, Investment Management at KBS

(Left) Redesigned rear lobby showcases the building's extraordinary lakefront views.
(Right) The welcoming tenant and visitor lounge in the front lobby.
Designed by DCS Design

A New Generation of Office Users

In Q1 2026, Kastle Systems reported Class A office buildings across 47 U.S. markets achieved 75% occupancy on peak in-office days (Tuesday through Thursday). By comparison, Class B and Class C properties averaged 55% occupancy. Research suggests higher attendance levels in premier office buildings are driven less by return-to-office mandates and more by employees' preference for high-quality workplace environments. As a result, demand is increasingly concentrated in highly accessible, amenity-rich locations which offer shorter commutes, vibrant urban settings, and convenient access to dining, wellness, and entertainment options. Traditional suburban office parks continue to lose favor as occupiers gravitate toward mixed-use developments which provide a more dynamic live-work-play experience.

This trend is particularly evident among Gen Z workers (born between 1997 and 2012), who place greater value on in-person collaboration, mentorship, and workplace culture than many of their predecessors. Recent surveys indicate 57% of Gen Z employees prefer an in-person work environment, and on average spend more days in the office each week than any other generation. As CohnReznick Associate and Gen Z'er Rece Gardner states, "Coming into the office allows me to make connections with my coworkers, making the job less transactional and more relational. On top of that, I naturally pick up on what's going on around me just by hearing conversations I wouldn't catch remotely."

Looking ahead, Gen Z's increasing influence in the workforce is expected to bolster long-term office leasing demand, with tenants placing greater emphasis on higher-quality workplaces which foster employee experience, productivity, and collaboration rather than simply maximizing square footage.

"Coming into the office allows me to make connections with my coworkers, making the job less transactional and more relational. On top of that, I naturally pick up on what's going on around me just by hearing conversations I wouldn't catch remotely."

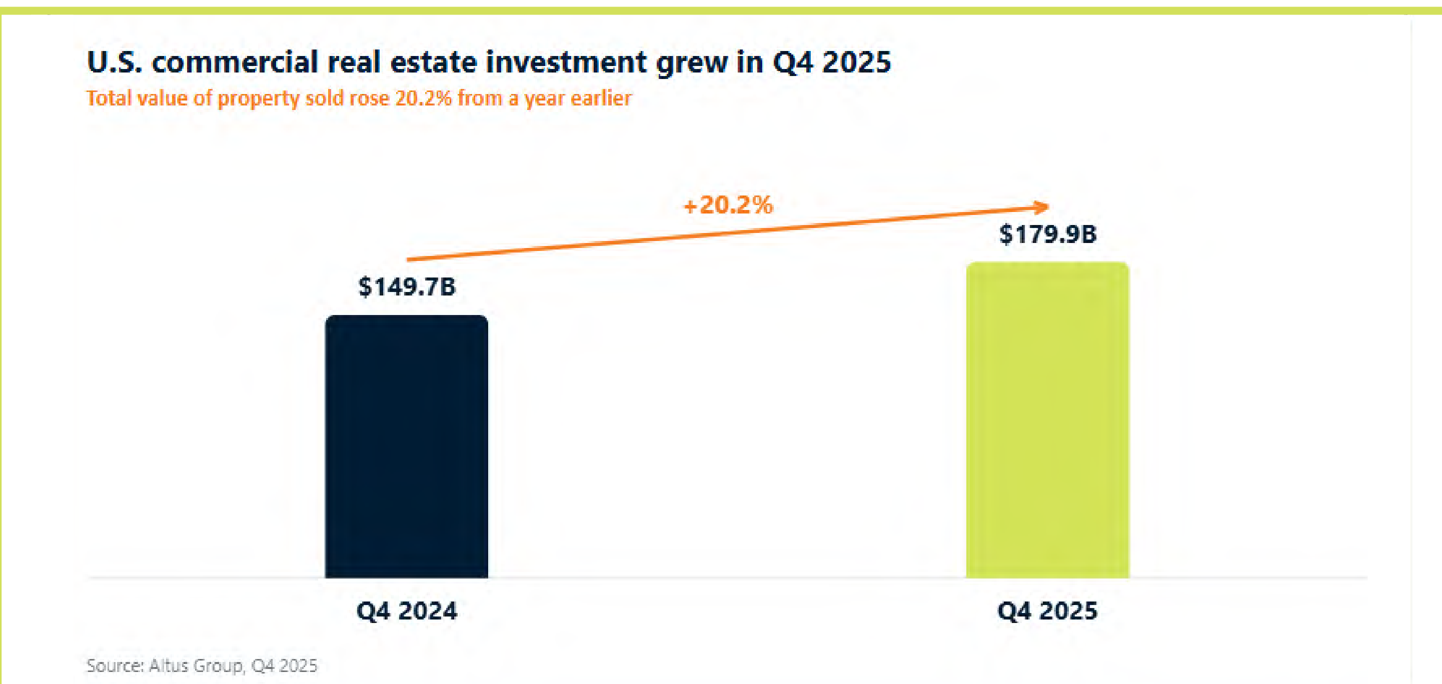
— Rece Gardner, CohnReznick Associate and Gen Z'er

Rebounding Investment

After an extended adjustment period, U.S. commercial real estate investment activity entered a more visible recovery phase in 2025, supported by improving capital markets, moderating financing costs, and greater alignment between buyer and seller valuations. During 2025, U.S. transaction volume reached approximately $560.2 billion, increasing 14.4% year-over-year and marking the second consecutive annual gain, as well as the first annual increase in transaction count since 2021. Momentum accelerated through year-end, with fourth-quarter volume totaling $179.9 billion, up 20.7% from the prior quarter and 20.2% from the same period a year earlier, reinforcing the view that the recovery broadened meaningfully in late 2025.

That recovery, however, has not been uniform. Capital continues to concentrate in markets and property types supported by stronger white-collar employment growth, limited new supply, and resilient asset-level fundamentals. More broadly, the investment market remains bifurcated, with elevated borrowing costs continuing to constrain marginal and value-add transactions while institutional investors increasingly favor structurally advantaged sectors such as data centers, industrial, and logistics assets. Real estate fundamentals remain especially favorable for prime assets, while first-quarter 2026 research indicates trophy office properties in the Washington Metropolitan Area continue to outperform the broader office market even as overall conditions remain uneven.

Financing conditions remain central to the pace and durability of the recovery. Elevated debt costs, driven by sustained increases in benchmark interest rates, have reduced deal feasibility for assets dependent on significant leverage or near-term refinancing, narrowing the buyer pool and sidelining weaker projects. At the same time, market signals have been mixed. During 2025, borrowing costs moved lower as benchmark rates declined and credit spreads compressed. In the fourth quarter of 2025, average all-in debt costs across property types declined 45 basis points quarter over quarter and 66 basis points year over year, while Term SOFR fell to 3.99%, down 69 basis points from the prior year. Through much of 2024 and 2025, lenders frequently chose to extend, modify, or restructure troubled loans rather than foreclose and force sale assets. Estimates show that roughly $600 billion in commercial mortgages were extended beyond original maturity dates. More recently, however, higher Treasury yields have introduced renewed uncertainty. As of August 2026, the 10-year U.S. Treasury approached approximately 4.65%, contributing to a sharp slowdown in transaction activity. If Treasury yields remain elevated, the market will likely continue to face constrained debt availability, valuation pressure, subdued transaction activity, and a widening performance gap between high-quality, growth-oriented assets and properties challenged by functional or demand-driven obsolescence.



Despite these headwinds, the Washington, D.C. Metropolitan Area ranked third nationally for office sales activity in 2025, generating approximately $3.8 billion in volume. Forward-looking indicators point to a more measured near-term trajectory, with current market pacing implying annualized sales volume of roughly $2 billion. This moderation reflects cautious capital deployment, ongoing price discovery, and the continued influence of a higher-for-longer interest rate environment on investment decision-making.

For investors, this dynamic presents two key implications. First, genuinely distressed acquisition opportunities remain relatively scarce. Second, capital deployment is increasingly concentrated in high-quality, well-located assets and in repositioning opportunities that offer a clear, financeable path to value creation.

REITs are positioned to be among the most active and advantaged buyers in the current cycle, supported by relatively lower leverage, longer-duration debt structures, and efficient access to public capital. Entering 2026, the sector is characterized by a pronounced disconnect between operating performance and market valuations. This divergence has been driven in part by sustained investor rotation toward higher-growth sectors and the continued impact of elevated interest rates on real estate sentiment. As macroeconomic conditions stabilize, interest rate volatility moderates, and transaction activity resumes, these valuation gaps are expected to lessen. Public REIT and private market valuations are expected to move toward re-alignment as values adjust toward transaction-driven pricing. This normalization is expected to compress cap rate spreads, enhance liquidity, and support increased transaction volumes. However, as valuations converge and transactions recover, REITs are likely to benefit from a relative competitive advantage in capital deployment, supported by their long-duration investment strategies continued and access to public equity and debt markets.

Recent investment activity in the Washington, D.C. Metropolitan Area underscores these themes and illustrates how capital is actively reallocating toward sectors supported by durable demand and long-term secular tailwinds. In May 2026, Chiron Real Estate announced approximately $425 million of acquisitions of senior housing communities across Maryland and Virginia. Notwithstanding this activity, the most significant concentration of REIT and institutional capital in the Washington Metropolitan Region continues to be in digital infrastructure.

Capital deployment is increasingly concentrated in **high-quality, well-located assets** and in repositioning opportunities that offer a **clear, financeable path to value creation.**

Rebuilding the Recovery

In response to elevated office vacancy levels due to federal downsizing, hybrid work patterns, and tenant migration toward higher-quality assets, Washington, D.C. has become a national leader in office-to-residential conversion activity, with conversions and demolitions surpassing new office construction for several consecutive years. As of early 2026, approximately 7,965 residential units have been delivered, are under construction, or are in the development pipeline through conversion initiatives, underscoring both the scale and urgency of this repositioning strategy. Washington's recovery will be partially measured by its successful execution of its reinvestment in large-scale, mixed-use projects and the repurposing of underutilized commercial assets.

Policy incentives have played a foundational role in catalyzing the current wave of adaptive reuse. The District's Housing in Downtown program offers a 20-year property tax abatement for qualifying office-to-residential conversion projects, materially improving project feasibility in a high-cost capital environment. At the same time, innovative capital solutions like Commercial Property Assessed Clean Energy (C-PACE) financing, further supplement development incentives. The $465 million C-PACE financing associated with The Geneva project, the largest transaction of its kind, illustrates how these structures are helping bridge funding gaps while aligning with ESG priorities. Collectively, these mechanisms are closing capital gaps and enabling conversion activity beyond what traditional underwriting would support.

Washington, D.C.'s real estate recovery is not only being shaped by cyclical market forces, but by a coordinated, multi-faceted strategy to rebuild the city's economic core, by revitalizing its physical landscape and restoring The District's prestige. At the federal level, recent policy direction reinforces this shift. Recent Federal initiatives are allocating significant capital toward construction, rehabilitation and urban beautification projects across the D.C. area. These initiatives underscore a broader federal commitment to enhancing livability and attracting sustained private investment.

At the local level, Washington, D.C. is advancing large-scale, multi-phase redevelopment efforts which are transforming underutilized land into mixed-use neighborhoods. The RFK Stadium campus, spanning approximately 180 acres along the Anacostia River, is a central component of this strategy, with plans to redevelop the site into a mixed-use district anchored by a new stadium, residential units, and community-oriented amenities. As Keith Waters mentioned in his presentation: "RFK brings a cool factor to The District." Additional redevelopment initiatives at Poplar Point, St. Elizabeths East, Walter Reed, Hill East, and McMillan represent a substantial pipeline of city-backed projects intended to redistribute growth beyond the traditional downtown core. These developments emphasize waterfront activation and multi-use spaces. District developers are leaning into the structural shift toward "Live-Work-Play" environments where tenants and employers increasingly prioritize amenity-rich, integrated spaces. These mixed-use projects generally outperform traditional single-use assets, exhibiting lower vacancy rates and higher rents.

In this context, the District of Columbia is undergoing a structural transformation of its economic base, land use patterns, and investment profile, positioning itself as a leading example of urban reinvention.

As of early 2026, approximately **7,965 residential units** have been delivered, are under construction, or are in the development pipeline through **conversion initiatives**, underscoring both the scale and urgency of this repositioning strategy.

Wine sky lounge connects to the rooftop deck, offering panoramic views of the Capitol rotunda and D.C. skyline.
Designed by DCS Design.

Is the Worst Behind Us?

For the first time since the pandemic, market experts are observing 2026 and 2027 with cautious optimism. The Commercial Real Estate Development Association (CREDA, formerly NAIOP) forecasts restrained national recovery with 50.5 million square feet of positive absorption by Q4 2026, and an additional 28.4 million square feet though Q3 2027. In the Washington, D.C. region, Northern Virginia is expected to see modest positive absorption, while the District of Columbia and suburban Maryland continue to face negative absorption trends through 2027.

Taken together, 2026 and 2027 are expected to be defined by rebalancing rather than rapid growth, with success increasingly determined by asset quality, strategic investment, and disciplined execution. The market's recovery is expected to remain selective rather than broad-based, and owners and investors who proactively adapt to changing occupier and capital market dynamics will be best positioned to create value and outperform.

(Left and bottom right) Amenity-rich assets with roof-top terraces and other outdoor social spaces outperform traditional, single-use properties.
Designed by DCS Design.

(Top right) Employees are increasingly recognizing the benefits of the in-person office for collaboration, mentorship, culture, and relationship building.
Space designed by DCS Design.

Appendix

Sources for this Article

- Cushman & Wakefield: Insights: Office Reports Q4 2025.
- CBRE: U.S. Real Estate Market Outlook 2026.
- JLL: U.S. Office Market Dynamics, Q4 2025.
- NAIOP: Office Space Demand Forecast, Q4 2025.
- KBS: Not All Office is Create Equal.
- Coldwell Banker Commercial: 2026 CRE Outlook, February 2026.
- Author Shilky Gupta for GEP: The New Era for Real Estate, February 6, 2026.
- CRE Daily, Q4 2025.
- Kastle Systems: Back to Work Barometer, November 2025.
- Kastle Systems Analytics Report, April 6, 2026.
- The New York Post, April 9, 2026.
- Gallup.com, April 2026.
- Altus Group, US commercial real estate transaction analysis - Q4 2025.
- CBRE 2025 U.S. Real Estate Market Outlook Midyear Review.
- CBRE, U.S. Real Estate Market Outlook 2026, January 14, 2026.
- CBRE, Q1 2026 U.S. Capital Markets Figures, April 30, 2026.
- JLL, U.S. commercial real estate investment activity expands as investors transact through uncertainty, May 14, 2026.
- Altus Group, US commercial real estate debt markets close 2025 on a stronger note.
- Nareit, Converging Forces: REITs, Institutional Investors, and Global Real Estate in 2026, December 2025.
- Newmark, Washington Metro Area Office Market Report, 1Q26, accessed June 2026.
- CBRE, Office Conversions and Redevelopment in Washington, D.C., July 22, 2025.
- Colliers, Washington, D.C. Report, January, 2026.
- CBRE, Office Conversions: Perspectives from Washington, D.C., July 8, 2025.
- Executive Office of the Mayor, Mayor Bowser Launches “Office to Anything” Program, January 14, 2025.
- Greater Washington Partnership, Regional Economic Snapshot, April 2025.
- MSCI US Capital Trends: Changing Dynamics in Real Estate Lending, October 2025.
- S&P Daily, Digital Realty, Equinix ramp up datacenters as AI drives demand, June 2025.
- Business Wire, Chiron Real Estate Inc. Completes Acquisition of Inaugural SHOP Communities, June 2026.
- Business Wire, Ares Makes Significant U.S. Data Center Investments in Northern Virginia, December 2025.
- Colitco, Google to Invest $9 Billion in Virginia for Cloud and AI Expansion, August 2025.
- White House, Executive Order: Making the District of Columbia Safe and Beautiful, March 27, 2025.
- WTOP News / Roll Call, coverage of $10B Presidential Capital Stewardship Program, April 2026.
- D.C. Office of Planning, RFK Redevelopment Master Plan, 2026.
- NCPC / NPS planning documents on RFK campus redevelopment, 2025–2026.
- CBRE, Office Conversions: Perspectives from Washington, D.C., July 2025.
- CRE Daily, Office Conversions Drive Washington D.C. Real Estate Revival, July 2025.
- D.C. Mayor’s Office release on conversion pipeline, January 2026.
- Washington D.C. Economic Partnership, 2025–2026 Development Report, April 2026.
- JLL, Mixed-Use “Lifestyle Office Markets” Defy Broader Office Market Challenges, Commanding 32% Higher Rents, September 2025.
- D.C. Green Bank, D.C. PACE Program and Nuveen Green Capital Announce Largest C-PACE Deal in the United States, January 2026.

CohnReznick helps organizations optimize performance, manage risk, and maximize value through associated firms operating under the CohnReznick brand: CohnReznick LLP, a licensed CPA firm providing assurance services; and CohnReznick Advisory LLC (not a licensed firm) providing advisory and tax services. Together, CohnReznick provides leaders with deep industry knowledge and relationships, solutions to address clients' unique business goals and risks, and insight on how emerging market forces can drive opportunity. With offices nationwide, CohnReznick serves organizations around the world as an independent member of Nexia.

www.cohnreznick.com

DCS Design is a locally-owned, full-service architectural firm based in the D.C. Metropolitan area, specializing in Architecture, Interior Architecture, Master Planning, Sustainability and Wellness, and Branding.

Our firm takes great pride in the contributions we have made to the built environment, including award-winning buildings, interiors, and over 22 million square feet of sustainable working and living environments we have designed to support our local communities and beyond.

Yet, of greatest importance is the reputation we have earned in the business community for being honest, ethical, and true to our word. This is not only reflected in the company's leadership, but in the attitudes and actions of our employees.

Do Good Work. Serve the Community. Celebrate Diversity. Be Stewards of the Earth. These tenets govern how we approach our business, our relationships with each other, our clients, and our outreach into the larger community.

www.dcsdesign.com