FEDERAL SHADOW VACANCY REPORT

OVERVIEW

The DC region is facing a tsunami of federal shadow vacancy – vacant space not being captured in widely circulated market reports. In the aftermath of the pandemic, government agencies are swiftly adopting telework and aggressive flexible work policies. While some private sector companies are pulling back on telework initiatives, many federal agencies are doubling down by memorializing these benefits in union agreements and entrenching them into agency-wide employment policy. As a result, tenant agencies are giving back space to the GSA at a record clip.

Our team has compiled a list of large blocks of leased and owned space (50,000 square feet or greater) that have been released back to GSA, are in the process of being released to GSA, or are planning to be released in the near future. The list includes 36 instances of space givebacks and reductions known to our team in both owned and leased assets in Washington, DC, and Northern Virginia. Of the leases reflected in our list, the firm term remaining ranges from 1 year to 15 years.

WHAT IS A REDUCTION?

A reduction is categorized as an agency allowing a lease to expire (i.e., no renewal) or choosing to downsize significantly at its natural expiration date. The space is not carried on GSA's vacancy portfolio but instead released back to the market.

WHAT IS A GIVEBACK?

A giveback is when a tenant agency releases space back to the GSA prior to the firm lease term ending or releasing space to GSA in a federally-owned asset. In a market context, space given back to GSA by tenant agencies should be included in the "shadow vacancy" calculations for the overall market – although technically still "under lease", nobody is in occupancy and conducting business inside the premises.

WHY IT MATTERS

Space givebacks force GSA to either carry vacancy on their books for the remainder of the firm term of the lease or backfill the space with another agency, presumably cannibalizing other leased space. Reductions create additional negative net absorption. This flood of vacancy injected into a market awash with Class B and C space will no doubt have a profound impact on future leasing projections. In DC alone, the square footage reductions identified in this report will increase the vacancy rate among Class B and C assets by up to 14%. However, opportunity remains as not all agencies are shedding space and the GSA still has 35 million square feet of active leases in DC and Northern VA. There is anticipated federal growth as a result of a long-term response to the pandemic, increasing agency budgets and missions, escalating global tensions, and an expansion of government services. If you are a building owner with a pending federal lease expiration or are sitting on vacancy, it will take considerable skill and knowledge to navigate through this coming environment.

7.9MM SF

Combination of federal sublease space or near term downsizes in Washington, DC, and Northern VA

4.8MM SF

In Washington, DC

3.1MM SF

In Northern VA

Represents an additional 2.75% increase in vacancy for the Washington, DC, and Northern VA metro market

CONTACT

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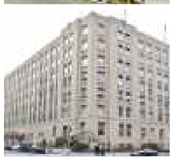
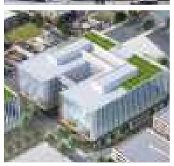
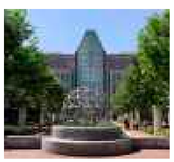
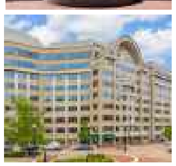
SELECT EXAMPLES OF GIVEBACKS AND REDUCTIONS

	AGENCY	ADDRESS	OWNED/LEASED	CURRENT SF	SPACE RELEASED SF	% DIFFERENCE	LEASE TERM REMAINING
	GIVEBACKS						
	**Transportation and Security Administration**	6595 Springfield Center Dr Springfield, VA	Leased	622, 812	120,000	19%	13 years
	**Federal Trade Commission**	400 7th St, SW Washington, DC	Leased	375,260	251,805	67%	4 years
	**General Services Administration**	301 7th St, SW Washington, DC	Owned	845,169	400,000	47%	Federally Owned
	**Securities and Exchange Commission**	60 New York Ave, NE Washington, DC	Leased	1,200,000	490,000	41%	15 years
	REDUCTIONS						
	**Patent and Trademark Office**	600 Dulaney St Alexandria, VA	Leased	2,387,000	763,500	32%	2 years
	**DHS, Immigration and Customs Enforcement**	1201 Maryland Ave, SW Washington, DC	Leased	61,231	61,231	100%	2 years

Photos courtesy of CoStar