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Tech Sector's Capital Infusion

Washington's Real-Estate Market Is Getting a Boost



iStrategyLabs will relocate to a former Wonder Bread factory in Washington.

DOUGLAS DEVELOPMENT

By Max Taves

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To accommodate the growth of his digital-advertising agency, Peter Corbett will move his firm to a 17,000-square-foot office housed in a refurbished Wonder Bread factory, a historic building in Washington that was abandoned in the 1980s and recently brought back to life by Douglas Development Corp.

The deal, completed last week, means that Mr. Corbett's firm, iStrategyLabs, will nearly triple the amount of space it is leasing in the city. At the same time, it is moving away from the upscale Dupont Circle to the transitional Shaw community, which city officials are trying to position as part of the city's technology corridor—a roughly five-block-wide, three-mile-long stretch of Georgia Avenue in northwest Washington.

Mr. Corbett said finding a neighborhood that was both accessible to and compatible with his young employees was as important as finding the right space. He describes Shaw as a "neighborhood that's coming up" and where a lot of "people in their 20s and 30s live."

The iStrategyLabs deal with Douglas Development, which also owned the agency's smaller office in Dupont Circle, is the latest example of how Washington's commercial-real-estate market is getting a boost from the technology sector. Other recent tech deals include EverFi Inc., an education-technology company founded in Washington in 2008 that signed a new lease in January for 22,000 square feet in Georgetown. Also, health-focused startup Kit Check relocated from Rosslyn, Va., earlier this year, moving into a 6,384 square-foot building near Chinatown.

The city's office market—long dominated by government agencies, contractors, law firms and trade associations—has been relatively weak in recent years. Technology firms, on the other hand, have been expanding, helping to soak up vacant space in a market that has yet to fully recover from the recession, according to Robert Filley of broker Marcus & Millichap.

According to broker CBRE, overall office vacancies in Washington stood at 11.3% in the second quarter of 2014, up from 11.2% in the first quarter. Overall office rents, which vary widely by neighborhood, fell 2.1% in the second quarter from a year earlier, according to broker JLL. Meanwhile, the city's pipeline of 1.7 million square feet of new office space expected to come online in the current quarter could put further downward pressure on rents. If not for tech companies, the numbers would be worse.

"The bright spot has been tech," said JLL's Andy O'Brien, a senior vice president. Mr. O'Brien said layoffs at government agencies and contractors present tech companies in Washington with opportunities to hire talent that few other regions have. He also said tech's growing demand for space already has helped the city cope with a declining traditional D.C. workforce.

While overall office-using employment rose 1.4% citywide between 2011 and 2013, technology employment in the city increased 3.6% during that same period, according to CBRE. Last week, CBRE ranked Washington 20th on its survey of the top 20 markets for tech job growth. San Francisco, Austin and New York were the top three.

The growth of tech firms isn't accidental. City leaders have aggressively courted young companies with tax breaks, relocation reimbursements, grants and other incentives.

At the center of the city's startup scene is 1776, a tech incubator a few blocks from the White House. Founded by Evan Burfield and Donna Harris in 2013 with a \$200,000 grant from the city, the campus now hosts 220 startups on its Washington campus.

Washington's appeal has more to do with accessing government talent than government dollars, say brokers and tech entrepreneurs. "This is not about replicating what other people are doing but leveraging what D.C. does well," said Ms. Harris. "There are a lot of upsides to the fact that it's a government town. All the expertise that's here. You have all the people who come here to connect."

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