

2026

DC Chamber of Commerce
DELIVERING THE CAPITAL



STATE OF BUSINESS REPORT

MEETING THE GROWTH CHALLENGE

About the DC Chamber of Commerce

The DC Chamber of Commerce is the voice of business in Washington, DC. It advocates on behalf of businesses and entrepreneurs and provides services to improve the business climate and attract new companies to the District of Columbia. As a leading advocate for economic growth, the DC Chamber reflects the diversity and prosperity of the District's robust business community, from sole practitioners, neighborhood storefront businesses, and tech startups to Fortune 500 corporations.



Acknowledgements

Washington, DC, is a flourishing and diverse global city. Its leadership—including Mayor Muriel Bowser, Deputy Mayor for Planning and Economic Development Nina Albert, the Council of the District of Columbia, and the DC Chamber of Commerce under the stewardship of the Board of Directors and President and CEO Chinyere J. Hubbard—is the catalyst for the production of the **2026 State of Business Report: Meeting the Growth Challenge**.

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About this report

This report was prepared and produced by the D.C. Policy Center for the DC Chamber of Commerce. The D.C. Policy Center is an independent nonpartisan think tank committed to advancing policies for a strong, competitive and vibrant economy in the District of Columbia. The organization's mission is to arm decision makers with fact-based, unbiased, and reliable research and analyses to help create a vibrant local economy that can maximize opportunities for residents, workers, and businesses in the District of Columbia.

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Letter from Chamber President & CEO

Chamber Members, Business Leaders, and Community Partners:

Every city reaches defining moments when new opportunities emerge and leadership is measured by how we respond to prosperity, and how we navigate uncertainty.

The **2026 State of Business Report: Meeting the Growth Challenge** meets that moment for Washington, DC, and the DC Chamber of Commerce.

While the data presented in this report are sobering, there remain reasons for optimism. Economic growth has slowed, employers are navigating a tighter and more complex labor market, and the continued evolution of commercial real estate is reshaping how our city works and grows. But, we are a resilient city and throughout our history we have consistently demonstrated an unmatched capacity to grow our way to prosperity.

It would be easy to focus solely on the headwinds. Doing so, however, would

overlook the extraordinary assets, talent, and entrepreneurial spirit that continue to position the nation's capital for long-term success.

Washington, DC, has never been defined by a single industry or employer. Our greatest strength has always been our ability to adapt, innovate, and lead. While the role of the federal government continues to evolve, the future of our economy will increasingly be shaped by entrepreneurs, innovators, small businesses, emerging technologies, and a workforce equipped to compete in a rapidly changing global marketplace.

Few cities possess the advantages that distinguish the District of Columbia. We are home to one of the nation's most educated workforces, several globally recognized universities and world-class research institutions, and offer an unrivaled concentration of expertise in technology, cybersecurity, public policy, professional services, life sciences, hospitality, sports, and international business. These assets continue to attract talent, investment, and opportunity from around the world.

The District is also redefining what a modern metropolis can become. Downtown is transforming into a more dynamic mix of residential, commercial, entertainment, and cultural spaces; new industries are emerging; and employers are reimagining the workplace. Across all eight wards, business owners and founders continue to invest in neighborhoods, launch new ventures, and create opportunities that strengthen our local economy.

This year's report makes one point abundantly clear. Our future competitiveness will depend upon our greatest assets: our people. Developing our city's workforce, expanding pathways to high-quality careers, supporting business growth, increasing housing opportunities, and ensuring employers have access to skilled talent are no longer separate priorities, they are part of one comprehensive economic strategy.

Throughout the Chamber's nearly nine decades of service, Washington, DC, has overcome global recessions, national crises, federal government downsizing, technological disruption, and unprecedented change. Each

challenge has reinforced an enduring truth: when business, government, educational institutions, and community leaders work together, the District emerges stronger.

While this report presents a realistic assessment of today's economic landscape, it also points toward tomorrow's possibilities.

The DC Chamber of Commerce will continue advocating for robust policies that strengthen the private sector, drive innovation, modernize regulation, invest in workforce development, improve public safety, and position Washington, DC, as the premier place to start and expand a business. Together, with our members, partners, and stakeholders, we will continue advancing policies that foster economic opportunity so that the District remains one of the most competitive and dynamic business communities in the United States.

Thank you for your continued leadership, partnership, and unwavering commitment to the future of the District of Columbia.



Chinyere J. Hubbard

*President & Chief Executive Officer
DC Chamber of Commerce*

Chamber Policy Agenda for 2027

The Chamber's 2027 Policy Agenda represents our strategic priorities for government relations as we advance our public policy priorities for the upcoming Council period.

Advocacy Priorities for 2027 and Beyond:

- Maintaining a sustainable citywide growth agenda;
- Defending downtown economic revitalization against efforts to divest from downtown and surrounding neighborhoods, leading to disinvestment by businesses, private equity, and prospective residents;
- Advocating for performance-based budgeting, independent program evaluations tied to measurable outcomes, procurement reform, and sunset reviews of underperforming programs;
- Promoting additional business regulatory reforms and business-supporting technological enhancements in the workplace and beyond;
- Continued emphasis on workforce development and job creation;
- Supporting efforts to enhance public safety.

Economic Stability & Revenue Protection

The District of Columbia faces fiscal pressures from declining commercial property tax revenues and a reduced federal workforce. Recent income, sales, payroll, and residential property tax increases have imposed additional burdens on residents and businesses. Repeated tax increases have become the go-to solution in every budget cycle, but they can influence decisions about where residents choose to live, where businesses invest and expand, and where jobs are created—particularly in a region where neighboring jurisdictions compete actively for people, employers, and investment.

The District's ability to sustain its important public services and social programs ultimately depends on a strong and growing economic base. Maintaining that foundation will require a tax environment that is stable and predictable, supports business formation and expansion, and encourages continued investment in the city.

The Chamber will therefore continue to raise concerns about revenue proposals that could impede sustainable business growth and will advocate for policies that strengthen the District's competitiveness, encourage investment, and provide appropriate incentives for downtown revitalization.

Workforce Development & Equity Partnerships

Sustainable economic growth starts with our greatest resource: our people. The Chamber will continue to advocate for expanded apprenticeships and job credentialing programs aimed at putting people to work by providing residents with the skills they need to perform 21st-century jobs. Specifically, the Chamber will continue to encourage the establishment of employer-led pathways in sports, entertainment, and live events management, including trades and apprenticeships tied to the RFK Campus construction, ensuring DC residents are first in line for the thousands of jobs this development will generate.

Regulatory Predictability & Mandate Reform

Workers, consumers, and residents must continue to be afforded the robust regulatory protections that will help our residents prosper and keep our workers safe. This goal is not incompatible with a regulatory environment that preserves opportunities for sustainable economic growth across the city. The DC Chamber believes this requires a clear and stable regulatory regime, and we are well-positioned to draw upon our legislative expertise and partnerships with DC

businesses to work with councilmembers and District leadership to help create that regime. The Chamber has identified the following priorities:

- Freeze new labor mandates, including new minimum wage increases, until a 2027 Regulatory Impact Review is completed;
- Modernize permitting and licensing (aligned with the efficiency goals outlined in the DC Comeback Plan);
- Create a Small Business Regulatory Navigator to reduce compliance burdens;
- Continue to invest in the IT required to consolidate various online customer-facing agency platforms so that users are able to promptly gather inter-agency information and make required filings via an integrated, one-stop-shop business filing platform;
- Continue to streamline and modernize our professional licensing regime to create appropriate apprenticeship, trade employment, and entrepreneurial opportunities for our residents.

Downtown & Commercial Corridor Revitalization

Reenvisioning our Central Business District remains a top priority for the DC Chamber. We have identified the following opportunities to help advance our efforts to do so:

- Expand arts activation programs (aligned with the Vacant Space Art Activation Act);
- Incentivize conversions of vacant office space into housing, labs, and/or education centers;
- Support Clean Corridors and Main Streets programs with multi-year funding;
- Promote the spillover economic benefits of the new RFK Stadium.

Public Safety as an Economic Imperative

The Chamber continues to support efforts that reduce crime and ensure public safety across all eight wards. Crime disproportionately impacts our smaller storefront business owners, workers, and residents, especially those who live and work

in our underserved communities. The Chamber will continue to advocate for public safety policies that protect workers and residents and has identified the following priorities:

- Support Metropolitan Police Department (MPD)/Fire/EMS recruitment and retention;
- Expand appropriate security grants for small businesses and nonprofits;
- Advocate for behavioral health co-response models to reduce crime and improve public safety outcomes.

Tech, Innovation & Diversification

With the loss of local federal government jobs, the District of Columbia needs to rethink its economic development strategies to attract new businesses. Building on its strong foundation as a hub of innovation across a variety of promising sectors, including higher education, healthcare, and high technology, Washington, DC, is uniquely positioned to capitalize on these strengths. In particular, its proximity to industry regulators in the nation's capital and its highly educated population make the District a perfect future home for startups across various industries. But we need to have a better understanding of the specific needs of this class of entrepreneurs, including the workforce skills needed to compete. The Chamber has identified the following business innovation priorities:

- Support Innovate DC and tech research grants. Expand appropriate incentives for startups, labs, and university partnerships.
- Reduce regulatory startup costs when appropriate, including business and professional licensing costs.



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FOOTNOTES: 1. ESRI MARKET PROFILE. (2024). BASED ON A COMPARISON OF THE TOP 25 MOST POPULOUS METROPOLITAN AREAS 2. CBRE. 2024 3. FORBES. 2024 4. SITE SELECTION MAGAZINE. 2025 5. THE ZEBRA. 2025 6. DESTINATION DC, 2025 7. WALLETHUB. 2025 8. TRUST FOR PUBLIC LANDS. PHOTO CREDITS: BOTTOM-RIGHT: SAM KITTNER FOR NOMA BID

A woman with blonde hair is speaking into a microphone at a public event. In the background, other people are seated at tables, and the scene is dimly lit with some blue light accents.

Executive Summary

The District of Columbia's economy is undergoing a transition. For more than two decades, the city benefited from a growth model driven by federal expansion, population growth, rising commercial real estate values, and an influx of highly educated workers. Together, these forces contributed to economic growth, expanded the tax base, and helped support public investments in schools, transportation, housing, and neighborhood revitalization. That growth model is now under pressure.

Recent reductions in the federal workforce have contributed to this pressure, though they are not the only factor. Some of the challenges confronting the District—including hiring difficulties and worsening housing affordability—predate the recent reductions in federal employment. While the District retains important strengths and pockets of resilience, a range of economic indicators points to a period of slower growth. These indicators include GDP growth, inflation-adjusted sales tax collections, tourism activity, wage trends, office market conditions, private establishment counts, business applications, and employment trends.

Real GDP growth in the District slowed in 2025 and was negative in the fourth quarter. While GDP growth improved in the first quarter of 2026, sustained growth will be needed to support a durable economic expansion. Inflation-adjusted sales tax collections have flattened after the post-pandemic recovery, consistent with more subdued consumer demand. At the same

time, tourism has remained resilient, suggesting that the District continues to attract visitors even as overall consumer spending has moderated.

Wage data provide conflicting signals. Withholding tax collections suggest that wages have remained resilient, while survey-based estimates indicate that real average wages have declined.

The District's office market remains under significant pressure. Occupancy rates—based on building entry card swipes—have stabilized at roughly half of their pre-pandemic level, office vacancy rates remain elevated, and construction of new office buildings has nearly ceased. Subdued demand in the commercial real estate market has placed continued downward pressure on property values, threatening one of the District's most important sources of local tax revenue. As the city works to revitalize downtown, adaptive reuse of underused office space—an area in which it has emerged as a national leader—has the potential to play an important role in recovery if financial challenges associated with office conversions can be addressed.

While the city's office market faces continued challenges, entrepreneurial interest as measured by total business applications in the District has continued, although private establishment counts have begun to decline and fewer new businesses appear likely to hire employees.

Despite resilience in some areas, labor market conditions remain a concern. Total employment in the city remains substantially below its pre-pandemic peak, and losses have affected key sectors, including professional and business services and leisure and hospitality. At the same time, resident unemployment in the District has increased, while labor force participation has declined—consistent with some residents exiting the labor force. In addition, reductions in the federal government’s civilian workforce have added a headwind to a local economy that was already under pressure.

These conditions have created a workforce challenge for the city. For decades, the District could rely on an influx of highly educated workers from elsewhere to meet employer demand. That pipeline is now under strain: domestic outmigration from the District has increased, and household mobility across the nation is at or near historic lows.¹ City officials can no longer rely as heavily on workforce gaps being filled by newcomers. These conditions create an opportunity for the city to invest in the workforce it already has.

Improving housing affordability could help address the city’s workforce challenges. In 2022, nearly two-thirds of the District’s essential workers—including police officers, healthcare support workers, and many early childhood educators—lived outside the city. This can weaken the District’s competitiveness by limiting employers’ access to nearby workers, increasing commute times, raising employee turnover, and reducing the city’s ability to attract and retain talent.²

Economic growth is supported by businesses that create jobs, invest, and expand. Businesses depend on skilled workers, while workers benefit from a housing market that allows them to live near employment opportunities. At the same time, businesses rely on consumer demand for the goods and services they produce. When any one of these pillars underperforms, the effects can

reverberate throughout the economy. Durable growth is more likely when the four pillars—businesses, workers, housing, and consumer demand—are strengthened together.

Taken together, the trends discussed in this report suggest that the District must adapt to a changing economic landscape. To do so, the city can draw on its many strengths: a well-educated workforce, prominent research institutions, strong transportation infrastructure, and vibrant neighborhoods. Long-term prosperity will depend in part on the District’s ability to leverage these assets to grow and retain private-sector businesses, develop its workforce, expand housing opportunities, and remain an attractive place to live, work, and invest.

This report concludes with three recommendations:

First, the District should strengthen its competitiveness by implementing carefully designed tax incentives for export-oriented industries that bring new income into the local economy and support private-sector employment growth.

Second, policymakers should continue investing in workforce development and adult education, with particular emphasis on preparing District residents for occupations where employer demand remains strong.

Third, the city should reduce barriers to housing production through zoning modernization, streamlined permitting, and predictable development processes so that workers across a broader range of incomes can afford to live in the District.

Together, these three policies would better position the District for more durable economic growth—not by recreating the conditions of the past, but by building a more competitive and resilient economy for the future.



Chapter 1

Economic activity and business performance in the District

Economic performance is often assessed using headline statistics such as gross domestic product (GDP) and employment growth. While instructive, no single measure captures the health of a modern urban economy like the District of Columbia's. The city's economy is shaped by a large federal presence, a substantial nonprofit sector, extensive commuter flows, and one of the nation's most prominent commercial real estate markets.

This chapter examines a range of indicators that reflect both economic activity and aggregate demand. Measures such as GDP, personal income, tax collections, wages, office market conditions, and business formation offer insights into overall economic performance, while consumer spending and private investment shed further light on the strength of aggregate demand. These indicators suggest that the District's post-pandemic recovery momentum has slowed, and that the economy continues to face headwinds.

Real GDP and personal income per capita indicate an economic slowdown in 2025.

GDP measures the value of all final goods and services produced within the District during a given period. Because it encompasses output from private businesses, nonprofit organizations, and government agencies alike, it is the broadest available measure of economic production. Changes in real or inflation-adjusted GDP provide an important benchmark for assessing whether economic activity is expanding or contracting over time.

Recent GDP data indicate that the District's economic growth slowed in 2025, although both the overall economy and the private sector showed signs of improvement in early 2026. In 2025, real GDP in the District rose by less than 0.5 percent, lagging national performance. More notable was the nearly 8.3 percent annualized decline in real GDP between the third and fourth quarters of 2025—one of the sharper quarterly declines

outside the COVID-19 recession.³ Consistent with this slower growth, the D.C. Policy Center's Quarterly Business Sentiments Survey found that surveyed businesses' six-month expectations for the District's economy deteriorated over the course of 2025.⁴ Continued growth will be essential to turn the signs of resilience in early 2026 into a broad-based recovery.

Several factors likely contributed to the weaker economic performance in 2025, including the federal government shutdown, reductions in the federal workforce that affected payroll employment beginning in October 2025, declines in federal procurement, and continued softness in office-based industries.⁵

Although quarterly GDP estimates are imperfect and volatile, it is notable that the slowdown in 2025 coincided with a deterioration in other indicators, consistent with a broader weakening in economic activity.

Personal income per capita offers a complement to GDP. While GDP measures the value of goods and services produced within the District, personal income per capita measures the income received by residents from wages, business ownership, investments, and government transfers. As a result, personal income per capita provides a measure of the resources available to support household spending, savings, and overall economic security.

Figure 1. Real GDP growth for the District of Columbia, quarter-over-quarter, annualized, Q2 2010-Q1 2026

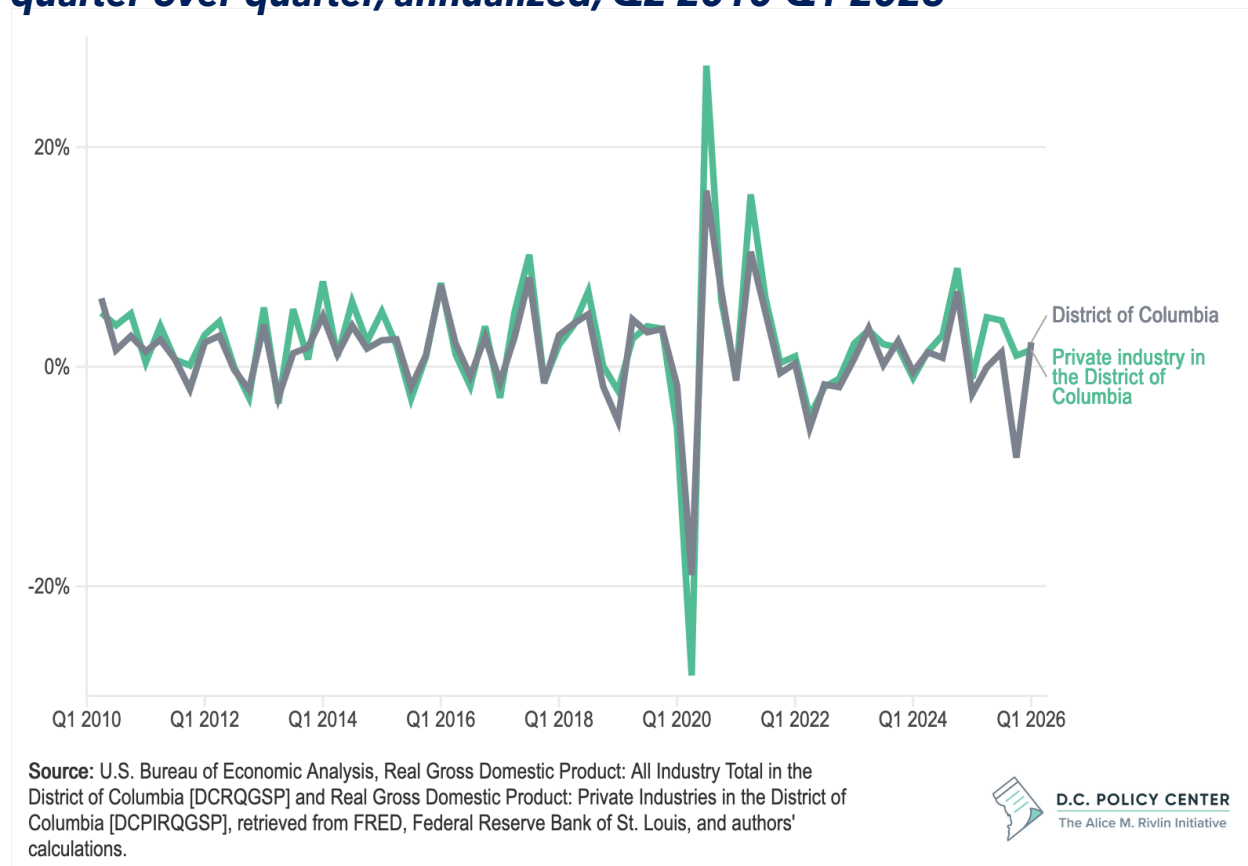
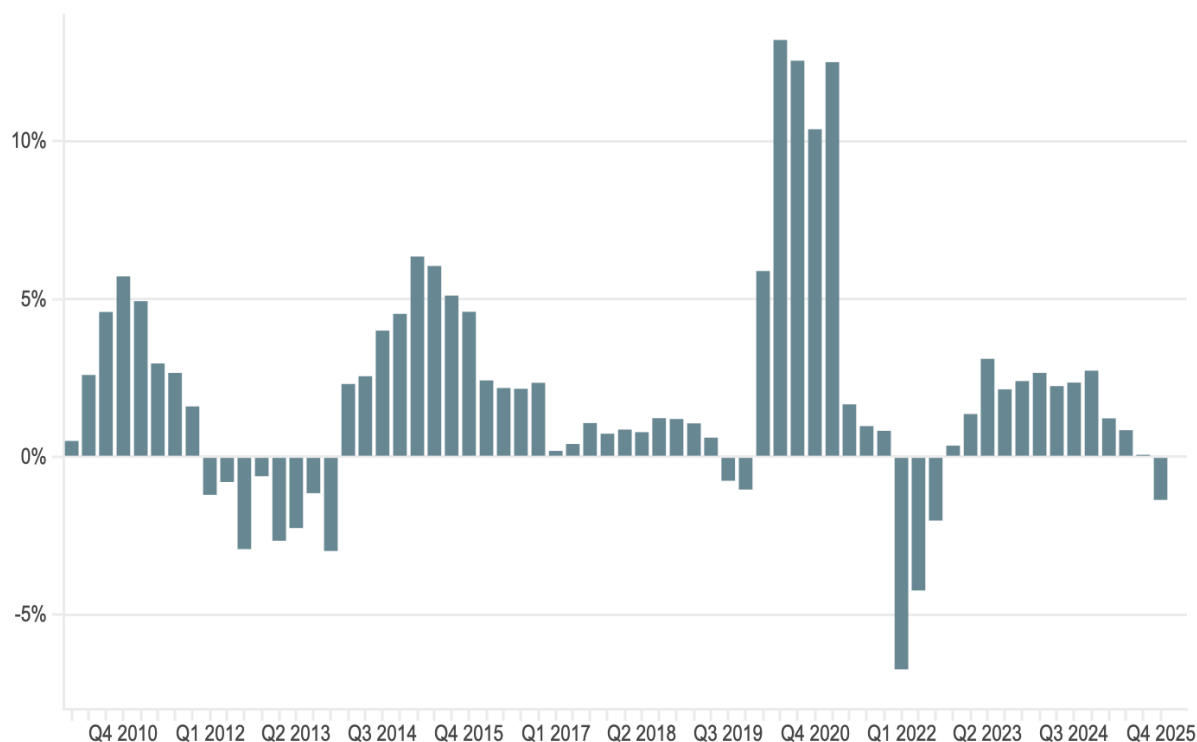


Figure 2. Quarterly DC real personal income per capita, change from previous year, adjusted to Oct. 2025 dollars, Q1 2010-Q4 2025



Source: D.C.'s Office of Revenue Analysis (ORA); U.S. Bureau of Economic Analysis, Personal Consumption Expenditures: Chain-type Price Index [PCEPI], retrieved from FRED, Federal Reserve Bank of St. Louis; U.S. Census Bureau, Resident Population in the District of Columbia [DCPOP], retrieved from FRED, Federal Reserve Bank of St. Louis, and authors' calculations.



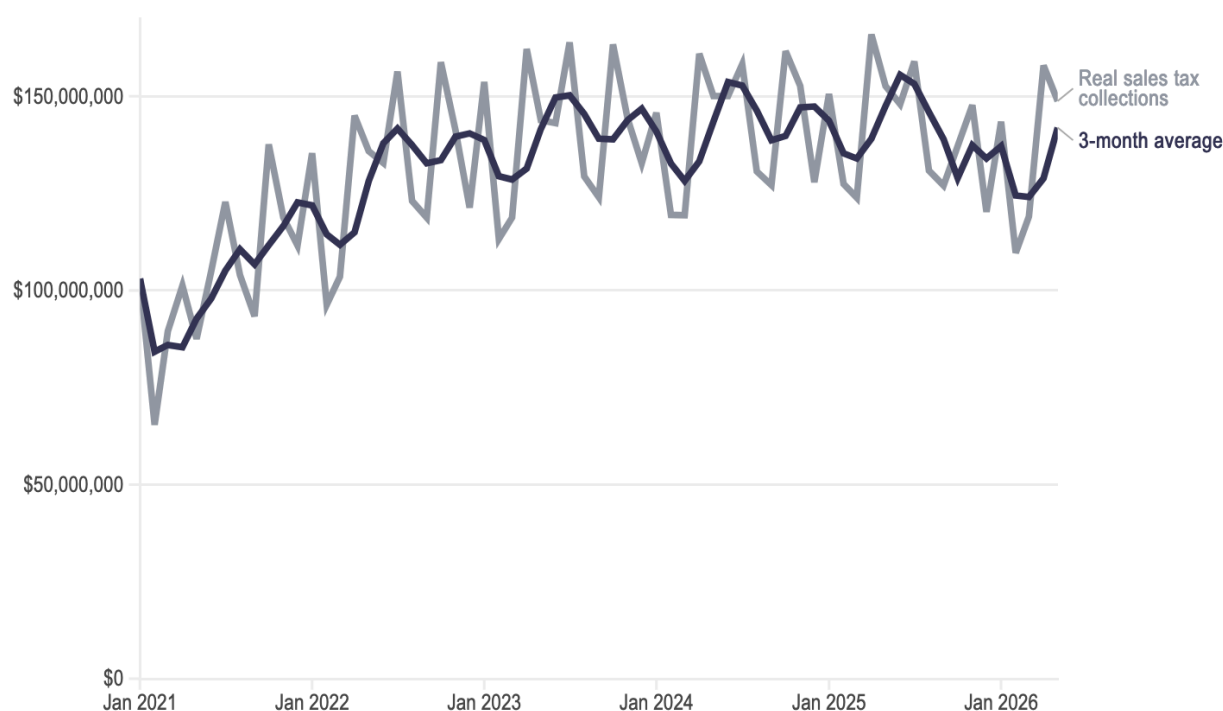
D.C. POLICY CENTER
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Real personal income per capita growth—measured as the percentage change from the same quarter a year earlier—rose during the pandemic due to fiscal support but has since weakened. Year-over-year growth reached 13.2 percent in the second quarter of 2020 before slowing as inflation accelerated and temporary federal relief programs expired. In early 2025, growth moderated before turning negative later in the year. In the fourth quarter of 2025, real personal income per capita in the District contracted by 1.4 percent. If this trend continues, declining real personal income could weaken consumer spending, reduce household financial resilience, and signal broader economic challenges facing District residents.

Recent consumer spending has moderated.

GDP and personal income per capita provide important insight into economic activity, but they are released with a lag and are often subject to revisions. As a result, they are less suited to assessing real-time economic conditions. For this reason, it is useful to examine higher-frequency indicators that provide more timely signals of economic conditions. Because consumption accounts for a large share of economic activity, changes in consumer spending provide a timelier signal of broader conditions. In the District, inflation-adjusted sales tax collections offer a proxy for consumer spending, rising when consumer spending increases and falling when consumers pull back.

Figure 3. Real monthly sales tax collections for the District of Columbia, adjusted to Jan. 2021 dollars, Jan. 2021-May 2026



Source: D.C. OCFO's Monthly Cash Reports, U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis, and authors' calculations.

Note: 3-month moving average uses whatever data is available when a full 3 months is not present and ignores missing values.



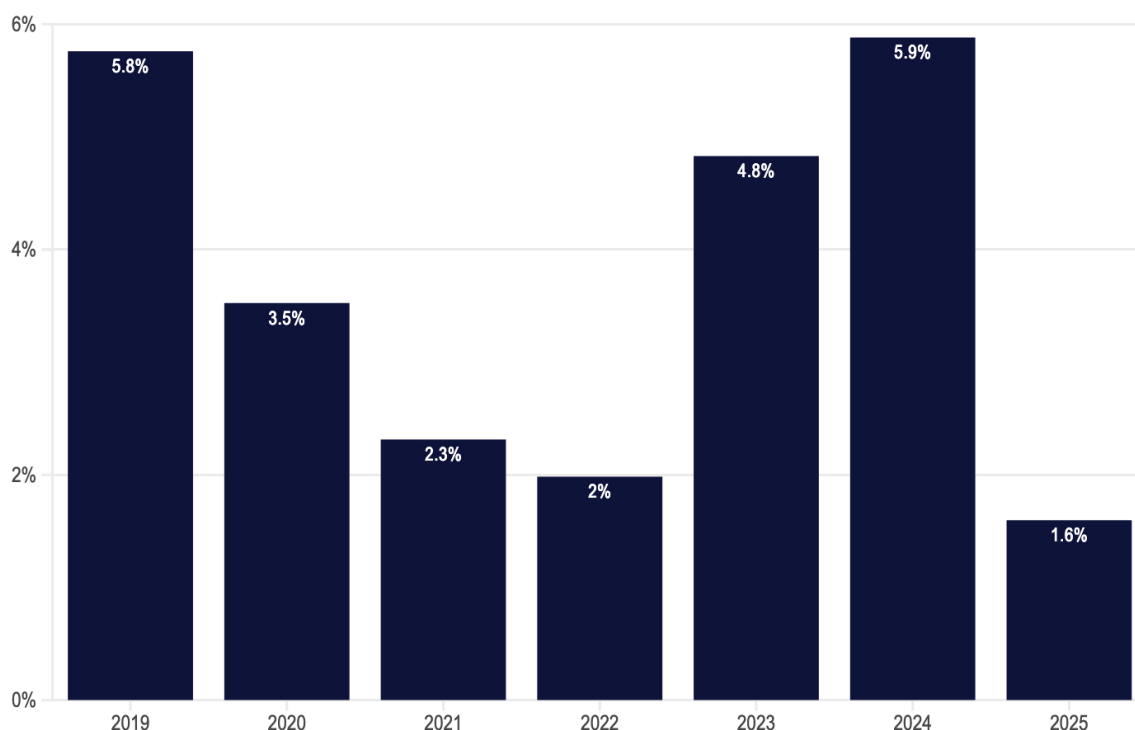
The trajectory of inflation-adjusted sales tax collections points to a gradual slowing in economic activity. Following the COVID-19 pandemic, taxable sales rebounded as households increased spending on goods and, later, as reopening of the economy restored activity in restaurants, hotels, entertainment venues, and parking facilities. That recovery, however, appears to be at an end.

Since mid-2023, inflation-adjusted monthly sales tax collections have shown little growth and have recently begun to decline. By May 2026, the three-month moving average of real sales tax collections was approximately 3.8 percent lower than in May 2025. While individual months can be volatile, the trend suggests that consumer spending has softened and that households may be becoming more cautious.

Tourism remained resilient in 2025.

Notably, even as broader consumer spending moderated, tourism remained resilient. The District attracted 27.2 million visitors in 2025, roughly the same number as in 2024. Domestic tourists made up the overwhelming majority of those who visited the city. According to Destination DC, tourists collectively spent \$11.9 billion and generated \$2.4 billion in tax revenue. The rebound in tourism since the COVID-19 pandemic and tourism's continuing resilience may partly reflect the District's cultural and entertainment offerings, which have been a focus of city efforts.⁶

Figure 4. Real individual income tax withholding for the District, change from previous year, adjusted to 2019 dollars, 2019-2025



Source: Withholding data provided by D.C.'s Office of Revenue Analysis (ORA); U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in U.S. City Average [CPIAUCSL], retrieved from FRED, Federal Reserve Bank of St. Louis, and authors' calculations.



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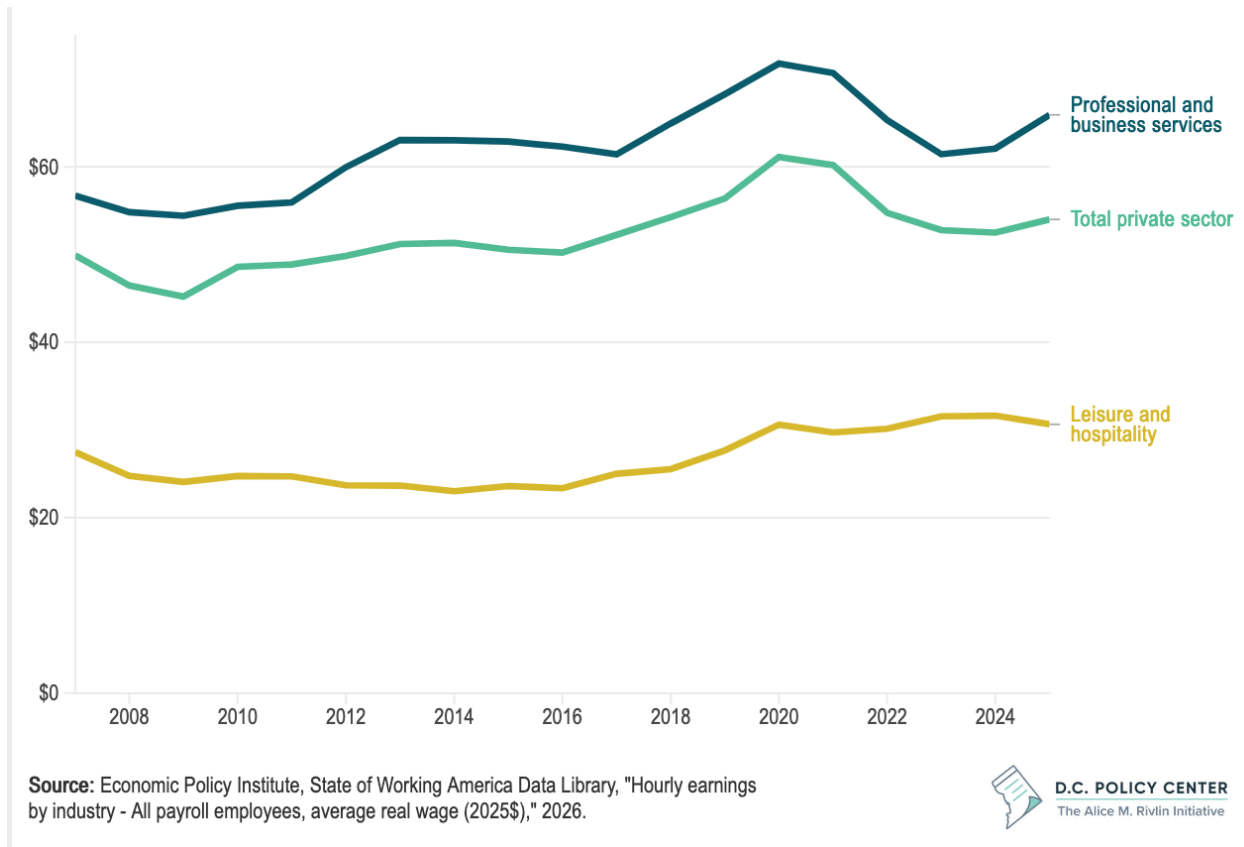
Wage data provide conflicting signals.

Another useful metric is income tax withholding—the portion of income taxes deducted from employee paychecks. Because withholding taxes are tied to wage and salary income, they provide a gauge of labor market conditions and household earnings. Inflation-adjusted withholding tax collections have been resilient throughout the post-pandemic period. Year-over-year growth started at 3.5 percent in 2020, then slowed to around 2 percent in 2021 and 2022 as the labor market adjusted to pandemic-related disruptions. Year-over-year growth then accelerated to 4.8 percent in 2023 and 5.9 percent in 2024, before slowing back down to 1.6 percent in 2025. Notably, despite some variation, real withholding collections grew in all the years shown.

The growth in withholding collections is encouraging. However, the growth in withholding collections stands in contrast to the estimates based on the Bureau of Labor Statistics Current Employment Statistics (CES) survey. Between 2020 and 2025, average real wages for payroll employees in the private sector fell from about \$61 per hour to approximately \$54 per hour—a decline of around 11.5 percent. But between 2024 and 2025, average real wages increased by almost 3 percent—an encouraging signal if sustained.

When discrepancies have emerged in the past, revisions have usually brought survey-based estimates closer to the trends reflected in the withholding data. If this pattern holds, the growth in real withholding collections indicates that wages and salaries have remained more resilient than survey-based estimates suggest, supporting both household incomes and the District's recurring revenue base.

Figure 5. Average real wages for all payroll employees for the District of Columbia, adjusted to 2025 dollars, 2019-2025



The commercial real estate market remains an economic vulnerability.

Commercial real estate plays a crucial role in the District's economy. Office buildings house many of the industries that make up the city's economic base—including professional services, law firms, consultancies, nonprofit organizations, and government contractors—and commercial property taxes generate a substantial share of local government revenue. Consequently, weakness in the office market affects far more than building owners. It influences business investment, downtown vitality, transit ridership, retail activity, and, ultimately, the District's fiscal capacity.

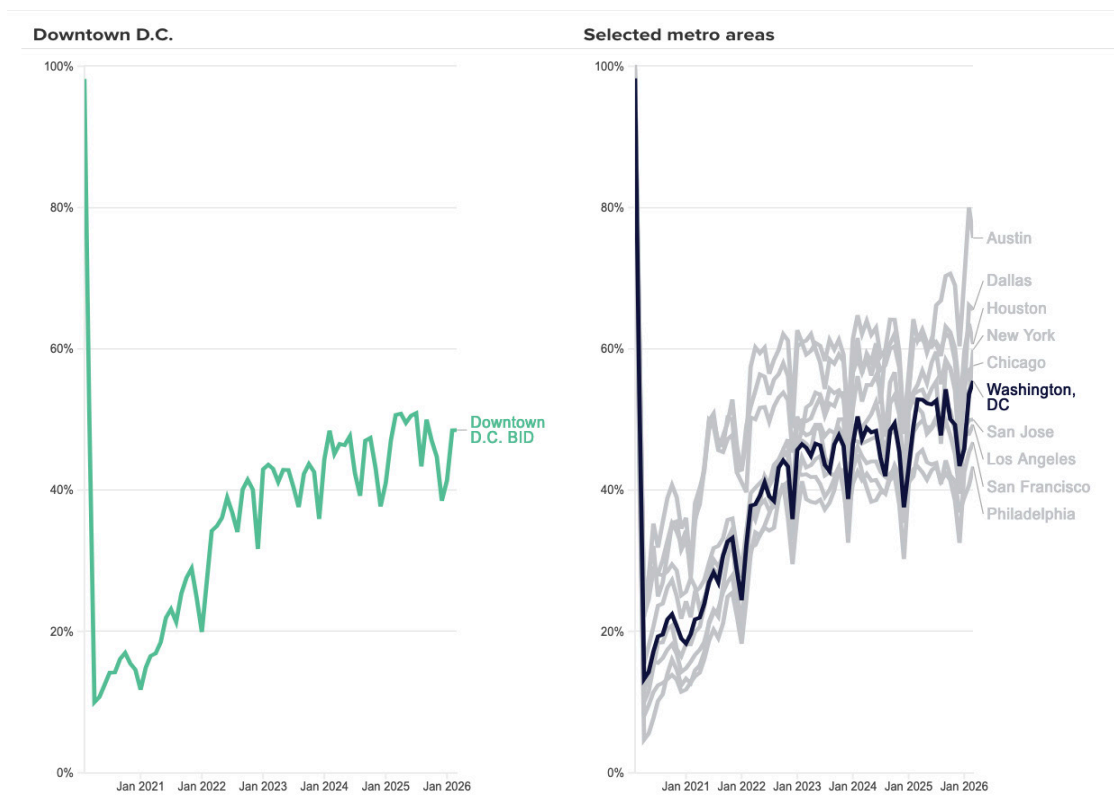
The demand for office space in the city remains well below its pre-pandemic level. Many businesses have adopted long-term hybrid work arrangements, resulting in a reduced need for office space. As a result,

the District's office market appears to have settled into a post-pandemic equilibrium characterized by more subdued demand.

Office occupancy has stabilized.

Office occupancy in downtown DC—based on building entry card swipes—was approximately 48.5 percent in March 2026, according to data from Kastle Systems.⁷ That figure represents a notable rebound from pandemic-era lows but remains below the pre-pandemic baseline. The broader DC metro area has fared somewhat better, recording a 55.5 percent occupancy rate—placing it in the middle of the pack among major metropolitan areas. By comparison, Austin led comparable metro areas with an occupancy rate near 75.7 percent, while Philadelphia recorded the lowest rate at roughly 43.3 percent.

Figure 6. Monthly office occupancy rates, Feb. 2020-Mar. 2026



Source: Kastle data provided by Downtown D.C. BID and authors' calculations.



During the early stages of the recovery, rising occupancy reflected workers' gradual return to the office. Thus far, occupancy has stabilized at a level below historical norms, indicating that hybrid work has become a long-term feature of the District's economy. For businesses that depend on daytime office workers—including restaurants, retailers, fitness centers, and service providers—this shift has reduced customer demand.

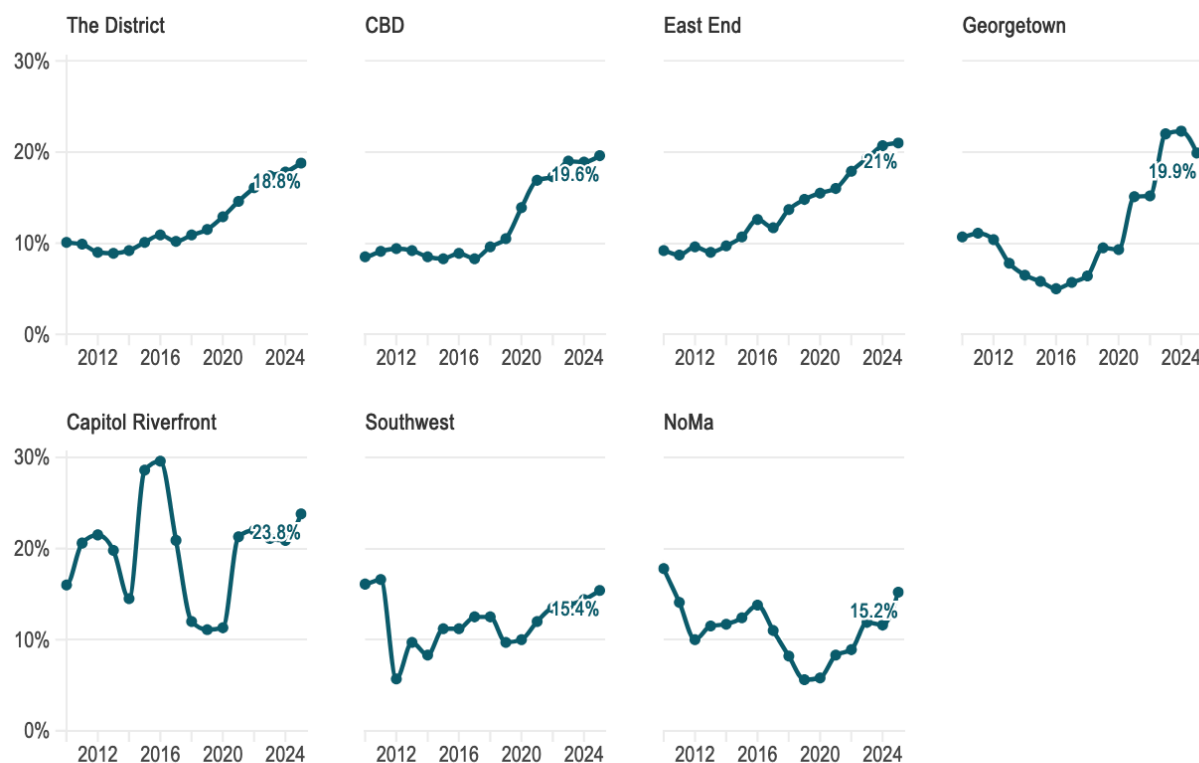
Office vacancy rates are elevated.

Lower office occupancy has coincided with high vacancy rates across nearly every major office submarket. The annual office vacancy rate for the District as a whole has risen steadily since 2017, climbing from 10.2 percent to 18.8 percent in 2025. In the major downtown submarkets, conditions are similar

or worse: the Central Business District posted a vacancy rate of 19.6 percent, the East End 21 percent, and Georgetown 19.9 percent. Submarkets such as Southwest and NoMa recorded somewhat lower rates—15.4 percent and 15.2 percent, respectively. But even these lower rates are elevated when compared to recent history.

These vacancy trends are reflected in net absorption figures, which measure the net change in occupied office space. Between 2020 and 2025, tenants shed approximately 11.1 million square feet of office space in the District—equivalent to roughly 7 percent of the city's total office inventory. This trend shows little sign of abating. CoStar projects a negative net absorption of an additional 1.7 million square feet in 2026, indicating that office tenants continue to reduce space faster than new demand is emerging.⁸

Figure 7. Annual office vacancy rates in the District of Columbia and select submarkets, 2010-2025



Source: CoStar.



Nominal gross office rents appear to have stagnated.

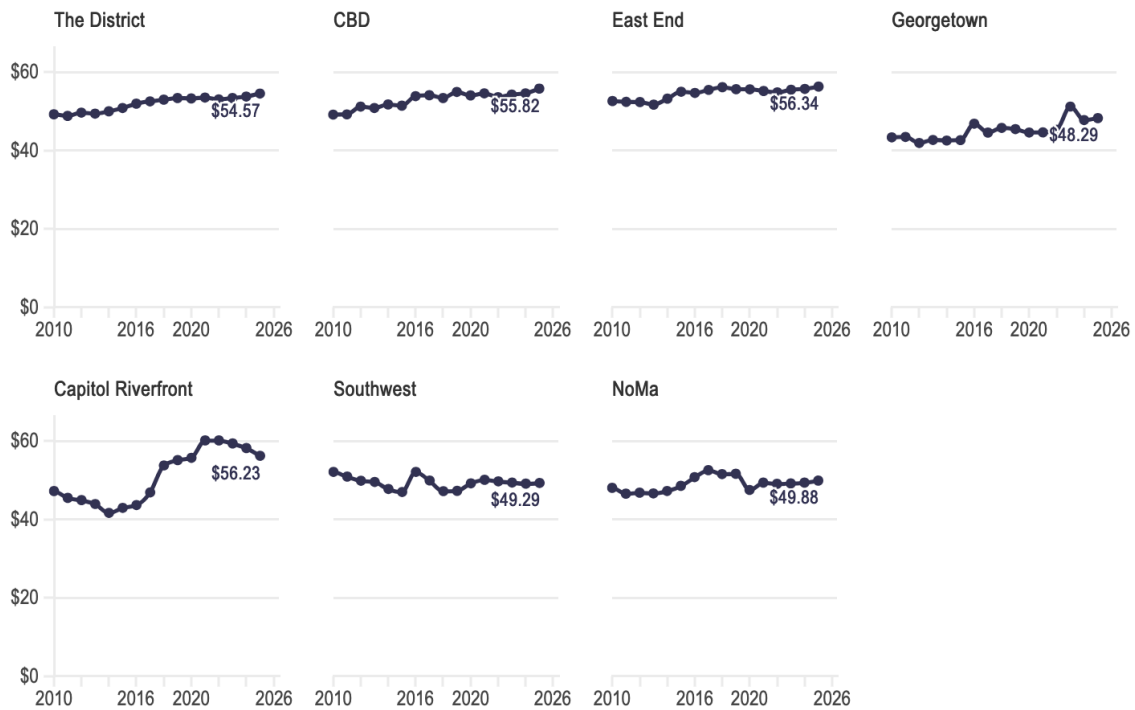
High levels of vacancy create a self-reinforcing cycle. As available space increases, landlords compete more for tenants through rent concessions, capital improvements, and generous leasing incentives. Lower rents and increased concessions reduce building income, placing downward pressure on property values and reducing incentives for future investment.

Nominal gross rents have been mostly stagnant since 2020, indicating that demand in the office market remains depressed. Between 2019 and 2025, annual nominal rents in the District increased by a little over

one dollar per square foot. In the Capitol Riverfront submarket, rents declined: after peaking at \$60.15 per square foot in 2021, they fell to \$56.23 in 2025.

Stagnant rents combined with rising vacancy rates signal that any recovery in demand for office space has been modest and uneven.⁹ Landlords have been reluctant to reduce advertised rents, instead relying on tenant-improvement allowances, free rent, and other concessions to attract occupants. The result is a market characterized by declining effective revenues despite relatively stagnant quoted rents. For policymakers, this distinction matters because prolonged weakness in building income affects assessed property values and, in turn, the commercial property tax base.

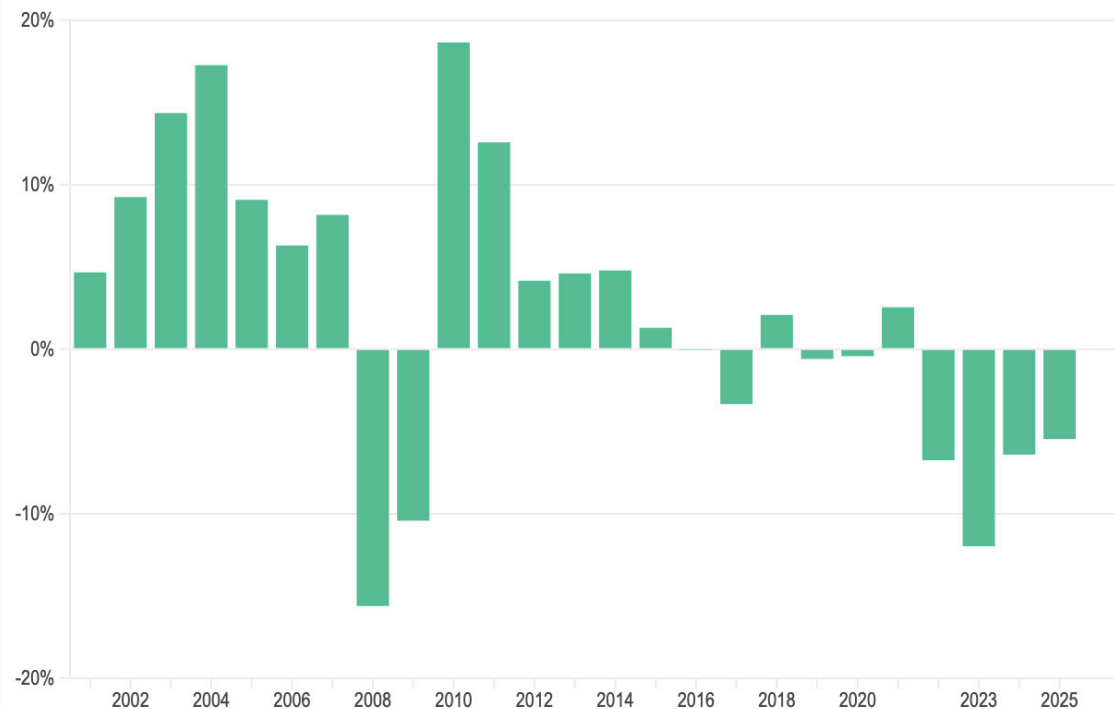
Figure 8. Nominal overall office gross rents in the District of Columbia and select submarkets, 2010-2025



Source: CoStar.



Figure 9. Percent change in the District of Columbia's office market asset values compared to the previous year, 2001-2025



Source: CoStar and authors' calculations.



Office market asset values experienced a substantial decline, which contributed to lower tax revenue.

According to CoStar data, the combined asset values of office buildings in the District declined by approximately 27 percent between 2021 and 2025 in nominal terms. This decline reflects the effects of tepid office demand, increasing vacancies, and lower operating incomes. The decline in office values contributed to a broader reduction in commercial property tax revenue. Actual commercial property tax collections declined from approximately \$1.59 billion in 2025 to an estimated \$1.41 billion in 2026, and are expected to reach roughly \$1.40 billion in 2027 before beginning a gradual recovery. The District's Office of the Chief Financial Officer projects that the commercial real estate market will eventually stabilize and that tax collections will increase in 2028 and through the end of the forecast period.¹⁰

However, current market data suggest that the recovery could take longer to materialize. Commercial property tax assessments tend to lag market conditions by approximately two years because assessed values are based on prior-year market information. As a result, tax collections in any given year largely reflect property values from two years earlier. CoStar data indicate that commercial property values continued to decline in 2026, with asset values estimated to fall an additional 3.8 percent by the end of the year after declines of 5.5 percent in 2025 and 6.4 percent in 2024. If these market trends are reflected in future assessments, commercial property tax revenues will likely continue to decline through at least 2028 before any recovery is evident in the tax base. In this sense, the District's commercial property tax revenues may not yet fully reflect the deterioration that has already occurred in the underlying market.¹¹

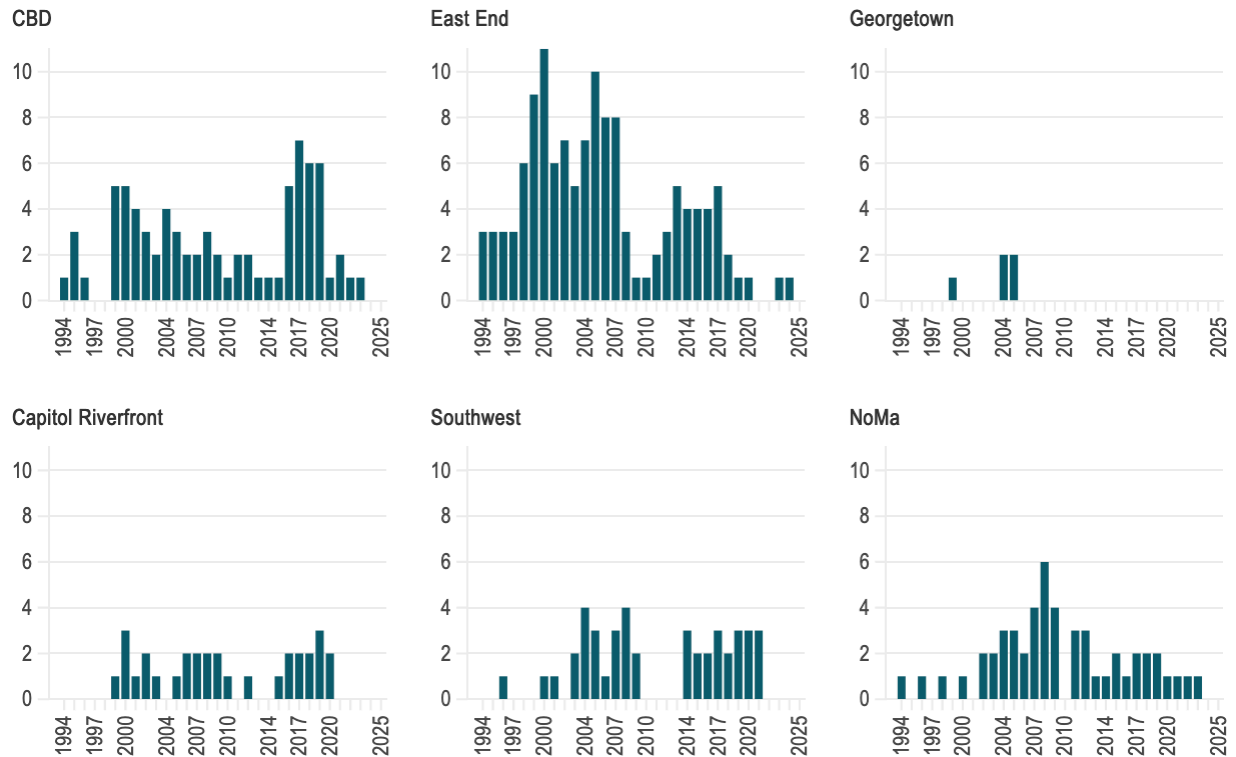
No new office construction was recorded in 2025, but conversions are underway.

CoStar did not record any office buildings as under construction across the city's key submarkets in 2025. Rather than adding new supply, the market shed nearly 1.5 million square feet of office inventory, primarily through conversions—repurposing unused office buildings—an area in which the city has established itself as a leader.

According to the Washington D.C. Economic Partnership, there were 11 conversion projects completed in 2024 and 2025, which created 1,904 residential units, 246 hotel rooms, and 592,365 square feet devoted to other uses. Another 10 conversion projects are underway, and 34 more are in the development pipeline. Accordingly, office inventory is projected to decline by 5.6 million square feet by 2030, from its peak of 164 million square feet.¹² If the conversion projects that are underway are successful, such projects will help contribute to a more vibrant downtown.¹³

Office conversions, however, can be both logistically and financially challenging. On the logistical side, repurposing office buildings, especially older buildings, sometimes requires extensive modifications to plumbing infrastructure, HVAC systems, and floor layouts. On the financial side, changes in interest rates, high construction costs, and demand for such space can make investment decisions regarding such projects more difficult. According to a report by Cushman & Wakefield, the complex financial side of conversions has caused "traditional construction lenders" to "hesitate, pushing developers toward alternative financing sources."¹⁴

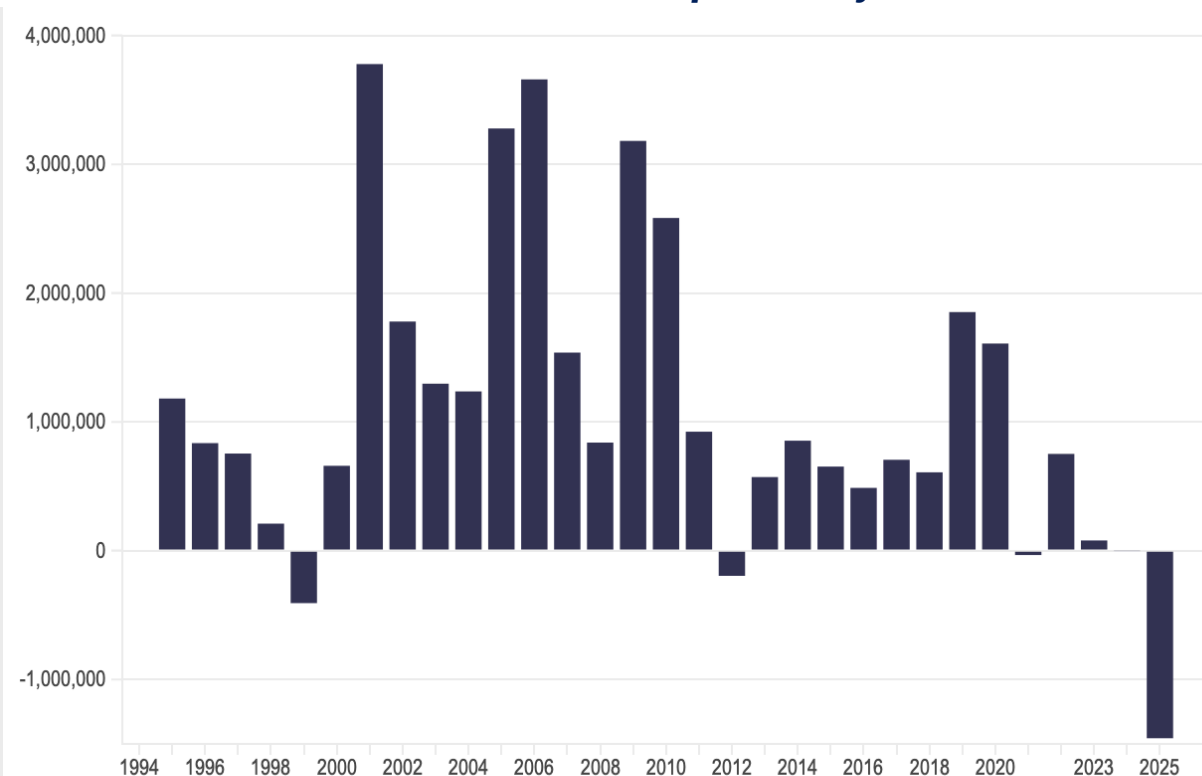
Figure 10. Office buildings under construction by select submarket, 1994-2025



Source: CoStar.



Figure 11. Annual change in total office inventory square footage in the District of Columbia relative to the previous year, 1995-2025



Source: CoStar and authors' calculations.



A “flight-to-quality” in the office market

To be sure, the District’s office sector has exhibited a bright spot in the form of a “flight-to-quality.” According to Avison Young’s 2026 Q2 DC office market report, demand for top-tier office space has rebounded more quickly than the rest of the market. In fact, since the COVID-19 pandemic, visitation to top-tier office space in the District has recovered the second fastest among major U.S. cities, after Manhattan.¹⁵

Entrepreneurial interest in the District persists, but the city’s employer pipeline has weakened.

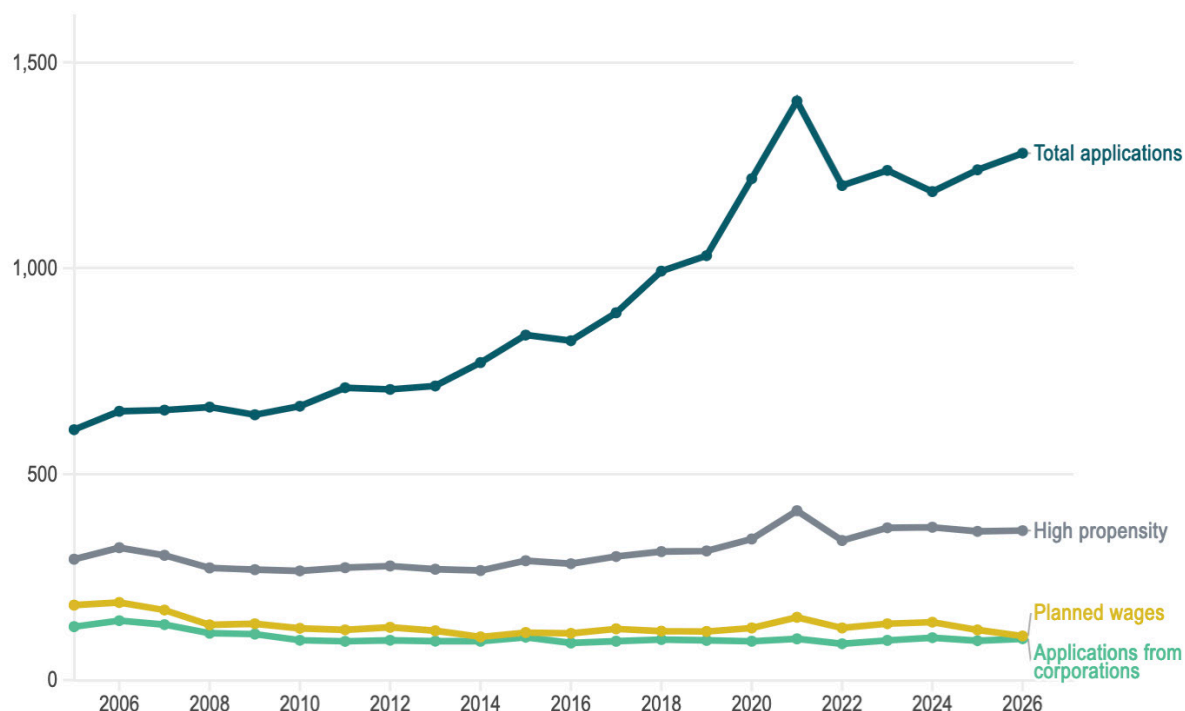
Business applications and private establishment counts provide insight into the economy’s future trajectory. The number of private business establishments has begun to decline and employer formation indicators have weakened—even as total business

applications have increased—suggesting a softer pipeline of job-creating firms ahead.

From 2024 through the first three months of 2026, total business applications increased by 7.8 percent.¹⁶ This increase is encouraging. It suggests continued entrepreneurial interest in the District despite broader economic uncertainty.

However, the number of high-propensity business applications—those with characteristics historically associated with becoming employer firms—has remained largely flat. In addition, applications from businesses reporting planned payrolls have declined, indicating reduced interest among entrepreneurs who intend to hire workers in the near future. Collectively, these trends suggest that while overall entrepreneurial interest remains resilient, the pipeline of prospective employer firms appears to be weakening.

Figure 12. Business applications in the District of Columbia, 2005-2026



Source: U.S. Census Bureau, Business Formation Statistics.

Note: Values represent annual monthly average. 2026 data is through March 2026.

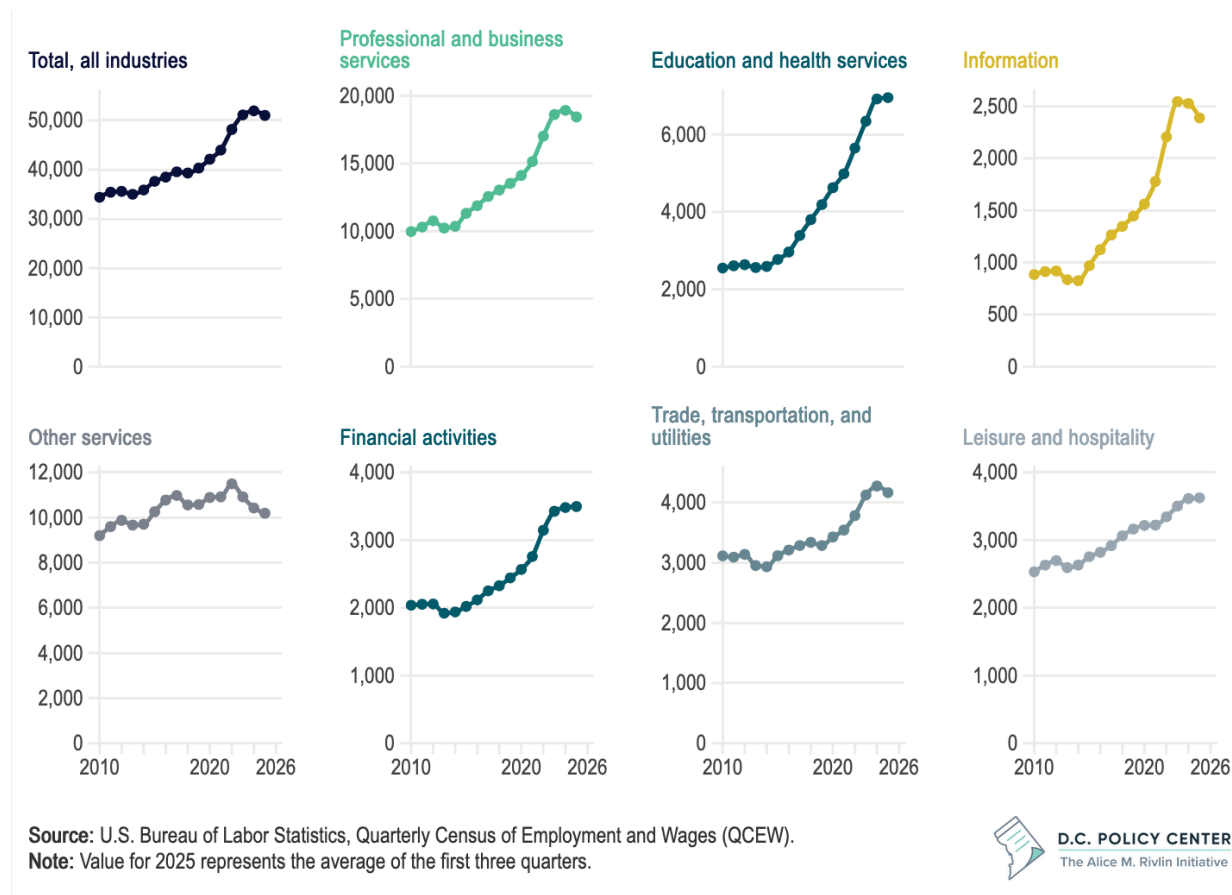


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Unlike business applications, which measure entrepreneurial interest, private establishment counts reflect the number of operating businesses in the District. The number of private establishments in the District declined by 1.8 percent between 2024 and 2025—from 51,943 to 51,006. While modest in absolute terms, this decline is notable because establishment counts had trended upward over much of the previous decade.

Professional and business services, a key pillar of the District’s economy, saw a 2.6 percent decline in establishments. Other services declined by 2.2 percent. Education and health services, typically a more stable sector, recorded modest growth of approximately 0.5 percent. Overall, these trends are more consistent with a broad-based economic slowdown than with sector-specific weakness.

Figure 13. Number of private establishments in the District of Columbia by industry, 2010-2025





Chapter 2

An updated picture of the labor force

Given that the District's economy is experiencing slower growth, weaker consumer spending, and declining business formation, a natural question is whether these conditions are affecting the local labor market. To shed light on this question, this chapter examines the District's labor market from several angles. The chapter begins with total employment, followed by resident employment and labor force participation, before turning to federal government employment and broader labor market dynamics.

The data suggest that employment growth has stalled, resident unemployment has increased, labor force participation has declined, and employers have become more cautious in their hiring. Taken together, these indicators suggest that the city is confronting challenging labor market conditions.

The District's labor market has been buffeted by two shocks.

Broadly speaking, weakness in the District's labor market results from two successive shocks affecting different parts of the economy. The first shock—the COVID-19 pandemic—disproportionately affected workers in customer-facing industries such as hospitality, restaurants, entertainment, and small retail establishments. Before the recovery from the first shock was complete, a second shock emerged. Starting in 2025, reductions in federal government employment and contracting, along with broader changes in government-related activity, placed renewed pressure on the District's economy. The second shock primarily affected federal employees and workers in government-adjacent industries, particularly professional and business services, a core sector of the city's economy. As a result, some of the employment gains made during the post-pandemic recovery were reversed.

Employment growth in the District has stalled.

Nonfarm employment—a measure of total jobs in the city—shows that the District’s labor market has not yet fully recovered from the COVID-19 pandemic.¹⁷

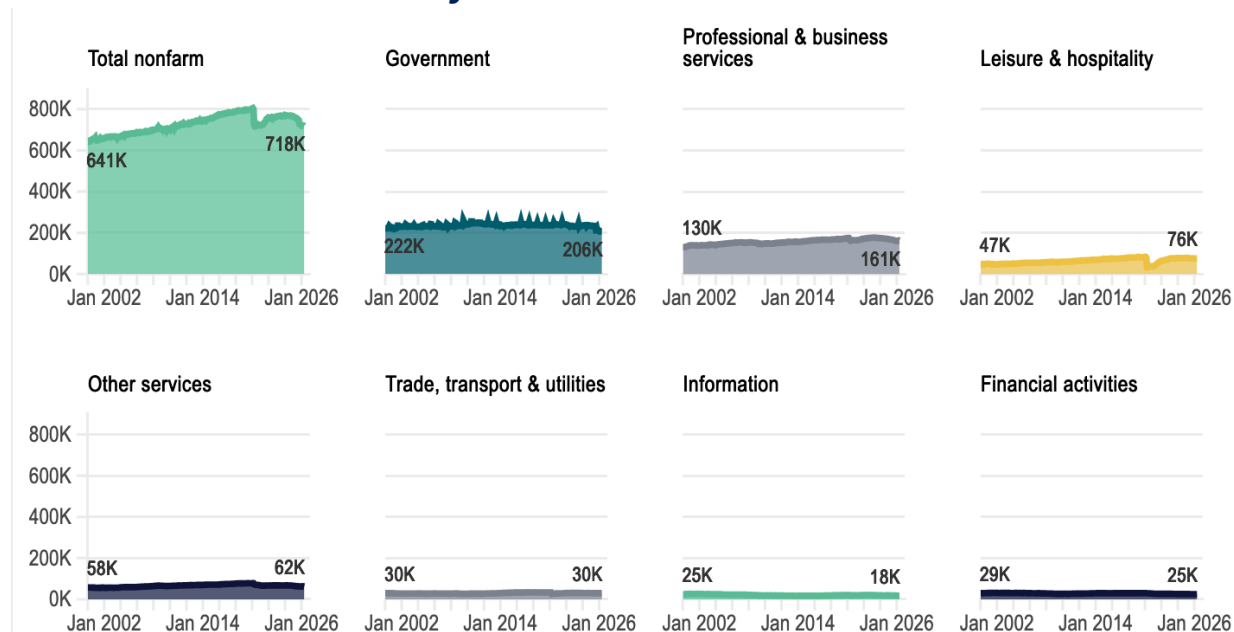
In February 2020, the District had approximately 805,400 jobs. In May 2026, that number had fallen to roughly 718,500 jobs—a loss of 86,900 jobs. Major sectors of the city’s economy have also been affected. For instance, the professional and business services sector lost 13,600 jobs, while leisure and hospitality shed 7,100 jobs. More recent trends are equally sobering. Between January 2025 and May 2026, professional and business services lost 8,600 jobs, while leisure and hospitality lost 1,800 jobs.¹⁸

Resident employment in the city has also declined.

Examining resident employment in addition to total employment provides a fuller picture of labor market conditions in the District. Between February 2020 and May 2026, the number of employed District residents decreased from 380,528 to 378,936—a decline of about 0.4 percent. Over the same period, the resident labor force increased by less than 0.1 percent, while the number of unemployed District residents rose from 22,961 to 24,808—an increase of 8 percent.

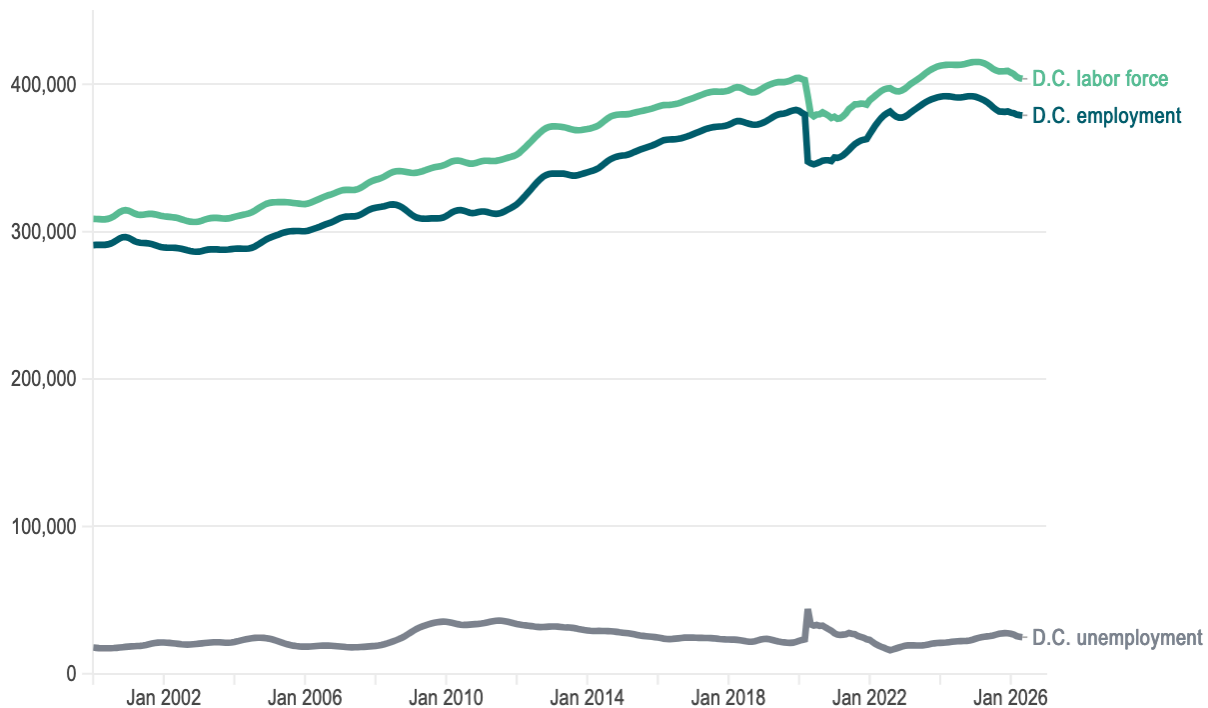
More importantly, recent trends have moved in the wrong direction. Between January 2025 and May 2026, the number of employed DC residents declined by 3.2 percent, while the number of unemployed residents increased by 4.4 percent.

Figure 14. Monthly employment by industry in the District of Columbia, Jan. 2000-May 2026



Source: U.S. Bureau of Statistics - Current Employment Statistics (CES) - State and Metro Area Employment, Hours, & Earnings.

Figure 15. District of Columbia resident labor force, employment, and unemployment levels, Jan. 2000-May 2026



Source: U.S. Bureau of Labor Statistics - Local Area Unemployment Statistics (LAUS).



The resident unemployment rate likely understates the weakness in the labor market.

The District's resident unemployment rate climbed from 5.7 percent in January 2025 to 6.1 percent in May 2026. Although this rate is not unusually high by historical standards, it may not fully reflect the extent of labor market deterioration. Over the same period, the District's labor force participation rate declined by 2.3 percentage points, indicating that some residents stopped actively looking for employment.

The unemployment rate is calculated as the number of unemployed residents divided by the total labor force. Because the rate includes only residents who are actively seeking employment, those who leave the labor force are no longer classified as

unemployed. As a result, the increase in the unemployment rate likely understates the weakness of local labor market conditions.¹⁹

Between January 2025 and May 2026, substantial reductions in federal government employment have compounded labor market challenges.

Between January 2025 and May 2026, declines in federal government employment in the District and the broader DC metro area have created an additional labor market headwind. Compared with January 2025 levels, federal government employment is down approximately 10.8 percent nationwide, 14.6 percent in the District, and 16.5 percent in the broader DC metro area.

These reductions are significant. Federal government employment in the DC metro area accounts for around 10 percent of total employment—at least three times the share in other major metro areas. In the District proper, federal government employment accounts for an even larger share—almost 25 percent of total employment. The data presented here—which measure federal government civil servants—likely understates the magnitude of these reductions. It does not include federal contractors, employees of intelligence agencies such as the CIA and NSA, non-active-duty military reservists, or others.²⁰

Employment levels describe the current state of the labor market, while job openings, hiring, and quit rates provide early signals of its future direction.

Between July 2022 and December 2025, the job openings rate declined from 6.7 percent to 4.3 percent, while the hiring rate fell from 3.1 percent to 2.7 percent. These declines suggest that employers are advertising fewer jobs, filling vacancies more slowly, and adding workers less quickly than during the post-pandemic recovery.

The quit rate also declined—from 2 percent to 1.4 percent. Workers generally leave jobs voluntarily when they are confident that they can find better opportunities elsewhere. A falling quit rate suggests declining confidence among workers in their ability to secure new employment.

Overall, the data in this chapter point to a struggling labor market since the COVID-19 pandemic. Yet, as the next chapter shows, even as unemployment has risen and hiring has slowed, surveyed businesses have reported greater difficulty finding qualified candidates over the past two years. The District's labor market is shaped not only by cyclical fluctuations but also by potential mismatches between the skills employers require and those of available workers.

Figure 16. District of Columbia resident labor force participation rate and resident unemployment rate, Jan. 2000-May 2026

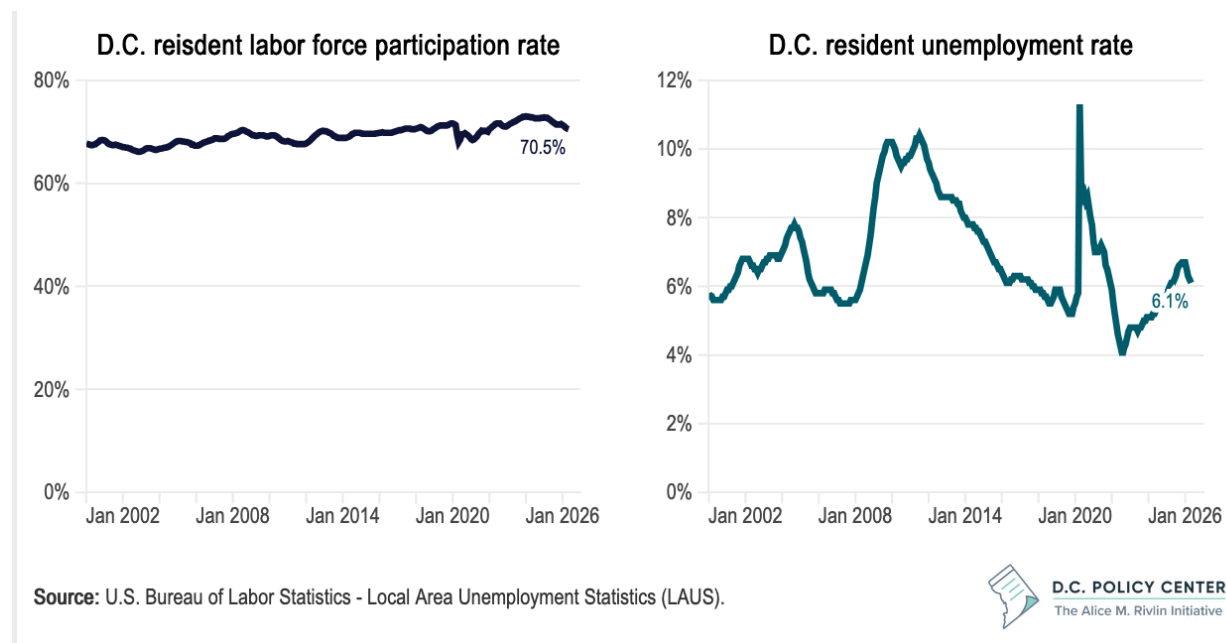


Figure 17. Federal government employment in the District of Columbia, DC metro area, and the nation, Jan. 2000-May 2026 (Jan. 2025 = 100)

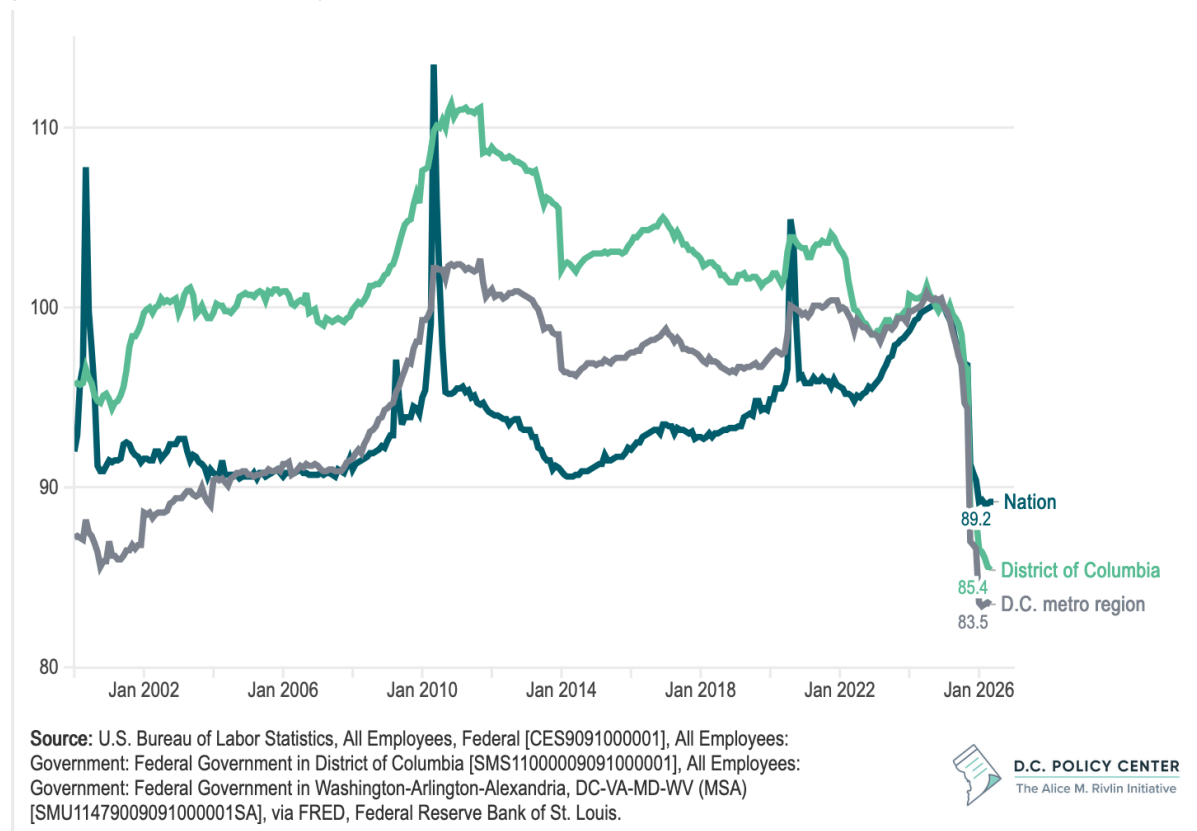
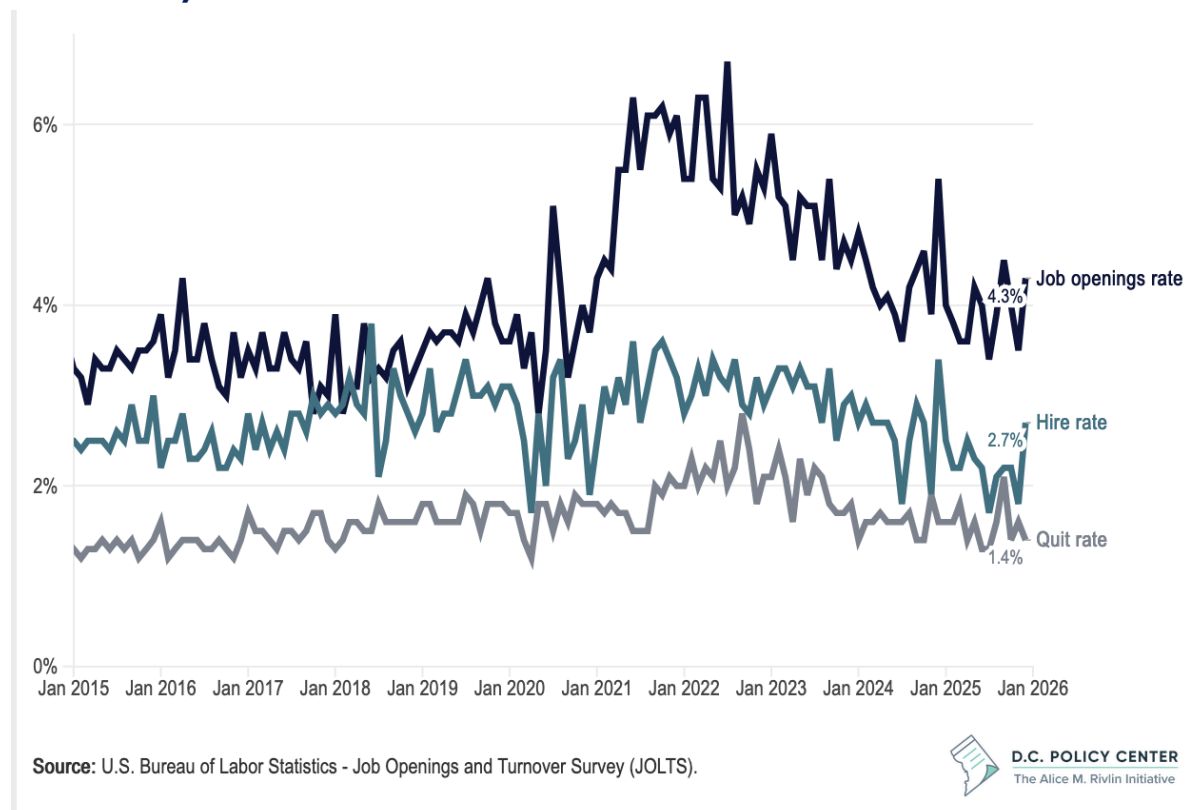


Figure 18. Job opening, hire, and quit rates for the District of Columbia, Jan. 2015-Dec. 2025





Chapter 3

The workforce challenge

Before the COVID-19 pandemic, the District benefited from a labor market that reliably supplied employers with highly educated workers from abroad and across the country. The city's concentration of federal agencies, universities, nonprofit organizations, consulting firms, and professional and legal services created a powerful magnet for talent.

However, recent labor market softness, domestic outmigration from the city since the pandemic, and a decline in household mobility nationwide make it less likely that the District will continue to attract new talent at its past pace. Increasingly, the District's competitiveness will depend on how effectively it develops its existing workforce while remaining an attractive place for businesses and workers to invest.²¹

The District's workforce challenge has two dimensions. The first is making sure that District residents have the skills, experience, and educational attainment needed to secure employment. The second is ensuring that workers in the District can afford to live in the city.

Both dimensions of the challenge require attention. Surveyed businesses have reported greater difficulty hiring qualified workers over the past two years, citing salary expectations as well as applicants lacking the necessary skills or experience. At the same time, high housing costs make it difficult for workers—particularly essential workers, including firefighters, police officers, and teachers—to reside in the city. These considerations suggest that strengthening the District's workforce will require investment in workforce training programs and housing policies that make it more feasible for workers to live in the city.

Surveyed businesses reported that hiring qualified candidates has become more difficult in the past two years.

The second round of the 2026 D.C. Policy Center's Business Sentiments Survey, conducted in mid-April, indicates that, over the past two years, more surveyed businesses have experienced increasing difficulty hiring qualified candidates (42 percent) than easing hiring challenges (14 percent). Of the remaining respondents, 24 percent reported minimal or no change in hiring difficulty, while 20 percent had not hired over the past two years.²²

Applicant salary expectations as well as skills or experience gaps were cited as top hiring challenges.

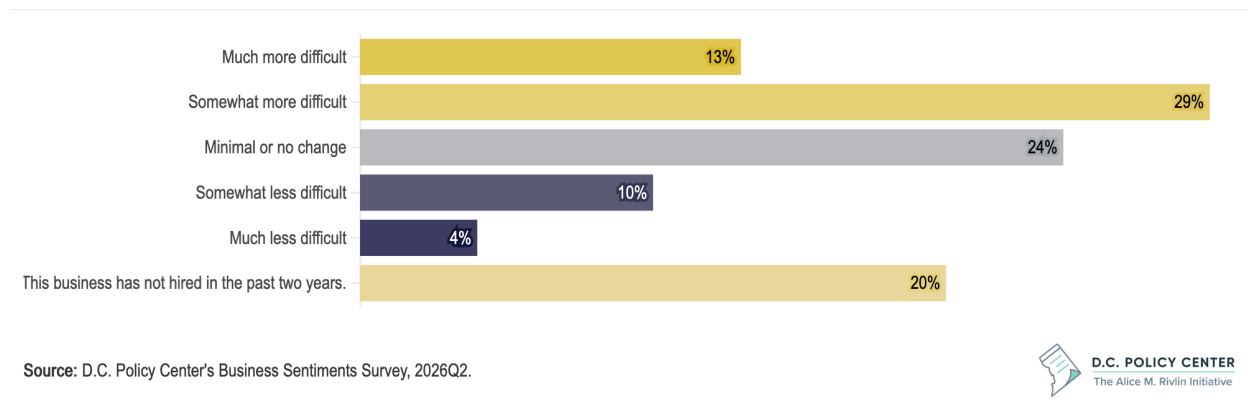
Salary expectations among applicants were cited as a top hiring challenge by surveyed businesses.²³ This finding may partly reflect the District's high and rising cost of living, which increases the wages workers require to afford housing, childcare, and other basic expenses. Other top hiring challenges

included applicants lacking the required skills or experience. Collectively, these responses suggest that hiring challenges likely stem from both affordability pressures that contribute to higher wage expectations and mismatches between the skills employers need and those available in the labor market. District policymakers have a role in addressing both challenges.

The District has one of the nation's most highly educated populations. At the same time, disparities in educational attainment exist among residents, particularly between those born in the District and those who moved to the city. Increasing educational attainment among native DC residents should be an important part of efforts to improve labor market outcomes.

A meaningful share of jobs in the District require a college degree. And yet, working-age residents born in the District have substantially lower levels of educational attainment than residents who were born outside the city. In 2024, the largest share of working-age residents born outside the District held advanced degrees, while the largest share of native-born working-age residents held only a high school diploma.²⁴

Figure 19. Reported change in the difficulty of hiring qualified candidates over the past two years



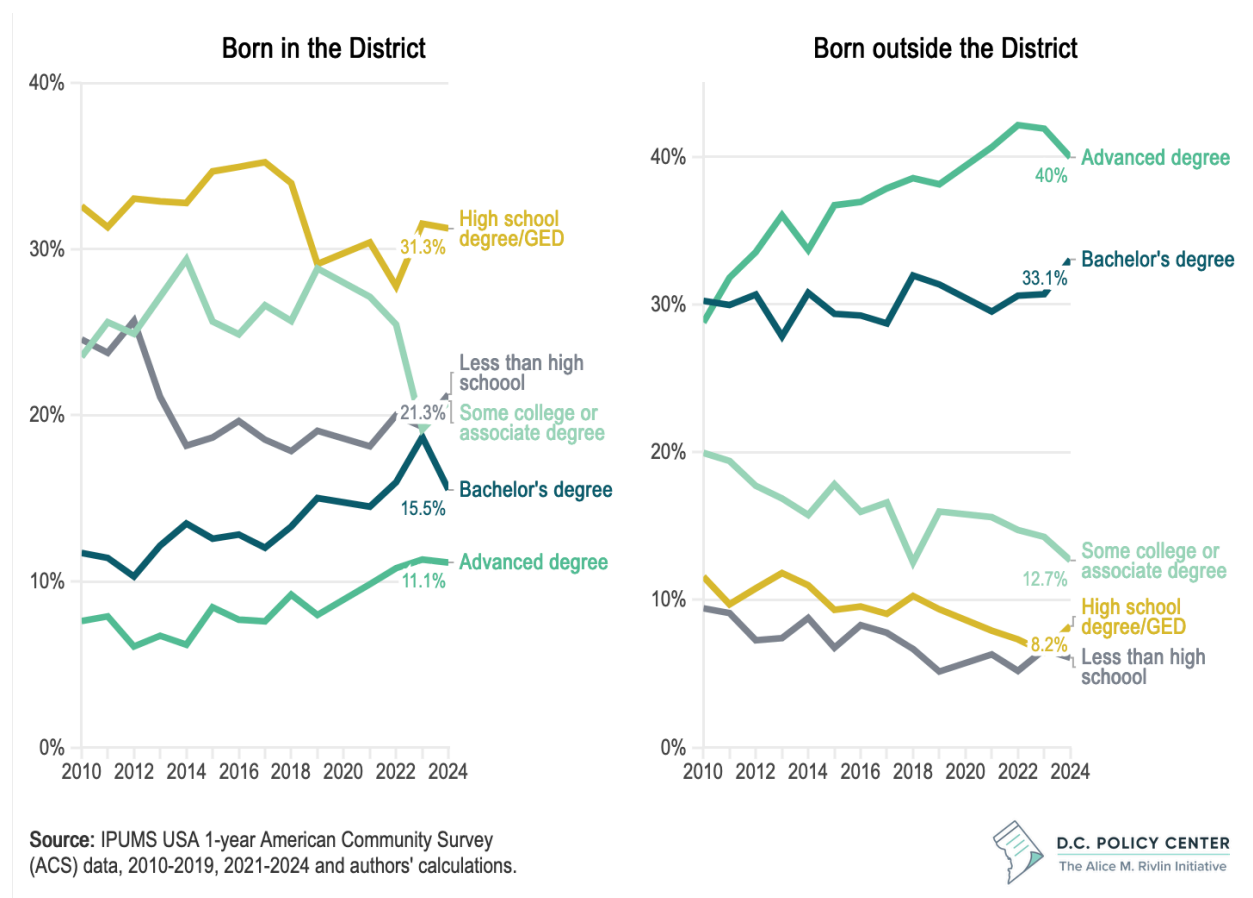
A recent study suggests that, despite many businesses dropping degree requirements in their job postings between 2014 and 2023, the number of skill-based hires did not substantially increase. A skills-based hiring approach evaluates candidates on demonstrated skills rather than formal credentials like a college degree. According to the study's authors, skills-based hiring across the country "has translated to new opportunity for only approximately 97,000 workers annually, out of 77 million yearly hires." In other words, skills-based hiring has benefited less than 0.2 percent of yearly hires.²⁵

The findings serve as a reminder that a job applicant's educational attainment remains vitally important. One obstacle for skills-based

hiring is that workers without college degrees often have limited ways to demonstrate their skills, while employers will gravitate toward cost-effective methods to evaluate job candidates. As a result, employers continue to rely on a worker's educational attainment even if it is no longer a posted job requirement.²⁶

The study's findings also suggest an opportunity: skills-based hiring could be substantially expanded if business leaders are convinced that it is practical and effective. Among the studied businesses that used skills-based hiring, researchers found that skills-based hires had higher two-year retention rates than their counterparts with degrees.²⁷

Figure 20. Educational attainment of DC residents aged 15 to 64 by place of birth, 2010-2019, 2021-2024



More generally, the findings suggest that employer hiring practices alone are unlikely to resolve structural workforce challenges. Expanding economic opportunity will require simultaneous investments in education, workforce training, credential attainment, career navigation, and stronger partnerships between employers and training providers.

Housing affordability is a part of the workforce challenge.

The District's workforce challenge is not only about equipping residents with the education, experience, and skills to succeed in the labor market. A second dimension to the District's workforce challenge is housing affordability.

D.C. Policy Center research found that, in 2022, 64 percent of essential workers lived outside the city.²⁸ In 2023, 64 percent of police officers, 56 percent of healthcare support workers, and 41 percent of early childhood educators lived outside the District. Even one-bedroom apartments are often beyond the means of early childhood educators living on a single income.²⁹

Businesses, workers, and the city as a whole would benefit if more essential workers lived in the city. For employers, shorter commutes are linked with less employee turnover. Lower turnover reduces hiring and onboarding costs. For workers, shorter commutes are correlated with better mental health and life satisfaction. For the city writ large, shorter commutes are correlated with less air pollution and lower greenhouse gas emissions.³⁰

A Message from DMPED

Supporting the District's technology economy

The District needs additional sources of private-sector growth. Federal workforce reductions have added to existing pressures from weak job growth, high office vacancy, and slower business formation. Technology-related industries offer one avenue for diversification because many sell goods and services to federal agencies, regulated industries, and customers outside the region, bringing new companies, jobs, and income into the District.

D.C. already has a meaningful technology base. The city supports approximately 51,000 technology jobs, with employment projected to grow 7.9 percent through 2028. Technology companies also leased more than 700,000 square feet of D.C. office space in 2024, more than twice the 2023 level. These indicators suggest that technology can contribute to employment, investment, and commercial demand, although D.C. remains a smaller market than the broader region.

Opportunities that build on existing assets

D.C.'s most plausible opportunities are in fields where it already has concentrations of talent, institutions, customers, and specialized expertise.

Priority Cluster	Example Sectors	D.C.'s Competitive Advantages	Economic Opportunity
Government and regulated technology	Cybersecurity, GovTech, AI, FinTech	Concentrated cybersecurity talent and proximity to federal agencies, regulators, and institutional customers.	Turn policy, regulatory, and technical expertise into firms serving government, regulated industries, and national markets.
National-security and dual-use technology	Space, quantum, advanced communications, autonomous systems	DOD awarded approximately \$7.9 billion to D.C.-based contractors in FY2025; firms also benefit from proximity to federal customers and national-security expertise.	Capture more research and procurement activity while helping firms develop commercial markets.
Health Innovation	MedTech, biotech, digital health, health security	D.C. universities, hospitals, and research institutions received approximately \$206 million in NIH funding in FY2025.	Convert more local research into companies and products while addressing limited laboratory and research space.

These clusters face different constraints. Government and regulated technology depend on specialized talent and customer access; national-security firms must navigate procurement and accreditation requirements; and health innovation requires patient capital, commercialization capacity, and specialized facilities. A single, generic technology strategy would overlook these differences.

The larger challenge is converting regional strength into activity located within the District. D.C.-based companies raised approximately \$861 million in venture capital in 2025, compared with roughly \$5.4 billion across the metropolitan region. The region is an important source of talent and capital, but it also competes with the District for growing firms.

Converting advantages into companies and jobs

A focused strategy should address the barriers that determine whether firms can start, grow, and remain in D.C.:

- Strengthen commercialization and startup infrastructure. Support incubators, accelerators, research commercialization, proof-of-concept programs, and shared facilities, with performance measured by company formation, capital raised, revenue growth, and jobs.
- Improve access to growth capital. Build on the DC Venture Capital Program and identify financing or policy barriers that make it harder for firms to remain in D.C. as they scale.
- Connect institutions to companies. Expand licensing, research partnerships, procurement pilots, and demonstration opportunities that help young firms reach customers and establish performance records.
- Use incentives selectively. Programs such as the Vitality Fund should focus on location or expansion decisions where public support can materially affect the outcome, with awards tied to jobs, wages, investment, and occupancy.
- Connect residents to industry growth. Training should respond to employer demand and include technical roles as well as operations, compliance, project management, sales, and health-related occupations.

D.C. does not need to compete across every segment of the technology economy. A more realistic strategy is to concentrate resources where the District has identifiable workforce, institutional, and customer advantages—and where targeted public action can help translate those assets into sustained private-sector growth.





Chapter 4

Policy priorities to strengthen the District's economy and workforce

Slower business formation, weaker private-sector growth, hiring difficulties, declining labor force participation, and worsening housing affordability are often discussed as separate issues. In practice, they interact in ways that shape the District's competitiveness. The policy response to the aforementioned challenges will need to reflect this fact.

No single policy is likely to reverse the present slowdown. Durable growth will likely require expanding the city's productive capacity by encouraging private investment, strengthening the local workforce, and ensuring that workers can afford to live near employment opportunities. Progress in one policy area may be more effective when accompanied by advances in the others.

Support job creation through export-based tax incentives.

Long-term economic growth is primarily driven by expanding the size and productivity of the local economy rather than reallocating existing economic activity.

Businesses that primarily serve District residents—such as restaurants, retailers,

and personal services—are essential to neighborhood vitality and quality of life. However, their growth is constrained by the purchasing power of the local population. In contrast, firms that sell goods and services outside the District bring new income into the local economy. Economists refer to these as export-based industries because they generate income by serving external markets.

Historically, the District's export industries have included the federal government, professional and technical services, legal services, consulting, higher education, research institutions, and nonprofit organizations with national or international missions. Increasingly, technology, cybersecurity, life sciences, advanced business services, and other knowledge-intensive industries also offer potential avenues for growth.

Economic development policy can play an important role in supporting these sectors. The District should consider structuring tax incentives for export-oriented firms in ways that are tied to measurable outcomes—such as job creation or workforce expansion—rather than location decisions alone.

This approach may better align public expenditures with public benefits while encouraging firms with stronger potential to contribute to long-term economic growth. At the same time, tax incentives alone rarely determine business location decisions. Workforce quality, transportation access, housing availability, public safety, regulatory predictability, and overall quality of life also play important roles in shaping a city's competitiveness. Economic development policy is best understood as a complement to—not a substitute for—broader policies that strengthen the District's economy and business environment.³¹

Prepare residents of all ages for high-demand jobs.

Workforce development is often viewed primarily as a social policy intended to improve employment opportunities for individuals. It should also be viewed as an investment in the District's long-term productive capacity.

As noted earlier, surveyed businesses reported difficulty finding applicants with the necessary skills or experience for the position. This finding underscores the ongoing need for the District to continue strengthening the skills and productivity of its workforce, particularly among native-born residents who may benefit most from additional training and support.

The District has developed a fairly comprehensive ecosystem for college and career readiness. Its strengths include data infrastructure, multiple postsecondary pathways, work-based learning opportunities, employer partnerships, and a growing emphasis on employment outcomes. The ecosystem includes programs that link high school students directly to careers, such as the Advanced Technical Centers, which provide training for high-demand occupations and opportunities to earn college credit. In addition, students in DC public schools have access to Career and Technical Education

(CTE) pathways and other programs that support college and career readiness. Private-sector initiatives such as D.C. Hires D.C. and CityWorks D.C.'s apprenticeship programs create opportunities for paid work experiences that support young people's transition into the labor market.

For adult learners, the city has a promising model in adult public charter schools, which serve thousands of residents and support them in earning a high school equivalency credential, including a GED, improving language skills, and transitioning into work or postsecondary education. The city's Adult and Family Education (AFE) grants also provide important support for academic advancement and workforce training for adults.³²

Build more housing to support the labor market.

Housing affordability has become one of the District's most important economic development challenges. Businesses cannot successfully attract workers if many of those workers cannot afford to live within reasonable commuting distance of their jobs. Rising housing costs increase labor costs, lengthen commutes, contribute to employee turnover, and reduce the size of the effective labor market available to employers.

Expanding housing supply should therefore be viewed not only as housing policy, but also as workforce policy and economic development policy. For this reason, the District should work to expand the amount of residential land that allows for multifamily housing. In addition to increasing the amount of land zoned for multifamily housing, the city should work to modernize building codes, improve permitting processes, and make by-right development truly by right.³³



Conclusion

The District's pre-pandemic growth relied on a specific set of conditions: expanding federal employment, rising office demand, strong population inflows, and steadily appreciating commercial real estate. None of these can be counted on to the same degree for future growth.

Building a more resilient economy presents challenges, but also an opportunity. The District possesses many assets: a highly educated regional workforce, globally recognized universities, world-class research institutions, strong transportation infrastructure, vibrant neighborhoods, and unparalleled access to federal decision-makers. These assets provide a strong foundation for future growth if paired with policies that expand economic opportunity, encourage private investment, and improve affordability.

This report has painted, on balance, a sobering picture of the District's economy, but a sober assessment need not preclude cautious optimism. By strengthening its private sector, investing in its workforce, and expanding opportunities for people to live and work in the city, the District can position itself for sustained growth in the decades ahead.

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