

# SUBURBAN MARYLAND INDUSTRIAL MARKET

Q1 2023



## TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.7	5.3	↓	5.3	↓
NET ABSORPTION (THOUSANDS SF)	(131.0)	196.0	↓	284.5	↑
DIRECT VACANCY RATE	6.1%	6.4%	↓	7.2%	↓
DIRECT VACANT SF (MSF)	6.1	6.3	↓	7.1	↓
UNDER CONSTRUCTION (MSF)	3.4	3.9	↓	1.8	↑
ASKING RENT, NNN (PSF)	\$11.42	\$10.11	↑	\$9.35	↑
SALES VOLUME (MILLIONS)	\$31.5	\$170.5	↓	\$128.8	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

## INDUSTRIAL MARKET SOFTENS IN Q1 2023

The Suburban Maryland industrial market contracted during the first quarter of 2023 with negative 131,000 SF of net absorption driven mostly by mid-sized moveouts. The direct vacancy rate increased 20 basis points to 6.1%. Asking rents rose 3.0% over the past three months to \$11.42 PSF and are up 12.9% over the year, as heightened demand and a low vacancy rate continues to increase prices.

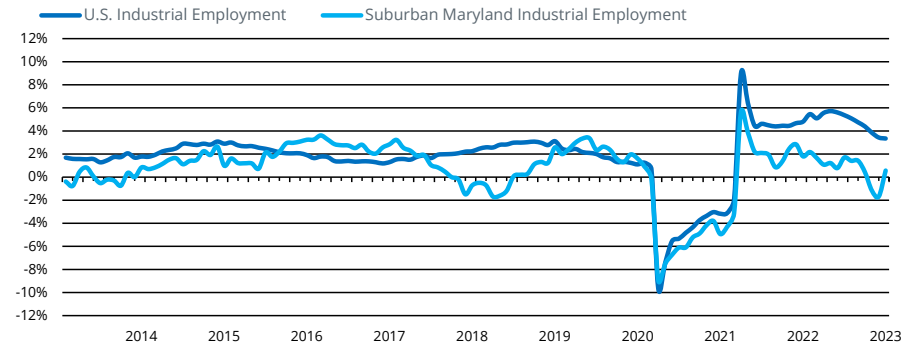
The industrial market has been on a super charged growth path, resulting in historically low vacancy rate and surges in rent growth. We expect industrial will remain a favored property type over the next year. Industrial buildings that focus on distribution of product, specifically grocery and household items, will likely outperform. Heightened demand, coupled with demolition of obsolete industrial product will keep the vacancy rate low, which will put upward pressure on rents. However, the peak of rent growth has likely passed.

**ECONOMY**

**Continued Growth in Industrial-Using Jobs, Although Mild**

- 22,900 new jobs were added to the Suburban Maryland economy during the 12-months ending January 2023, well-ahead of the pre-pandemic 5-year average of 9,900. This was driven by health care and the state and local government sector.
- Industrial-using jobs added 800 new positions during the 12 months ending January 2023, which is behind of the pre-pandemic 5-year average of 2,300. Most of the growth during the past year occurred within the manufacturing and wholesale trade sectors but was offset slightly by job cuts in the trade/transportation/utilities Sector.
- The unemployment rate in Suburban Maryland is currently at 3.1% in January 2023 which is below the average of 3.4% over the past three months. The rate has improved significantly from the peak of 10.4% in July 2020.
- We expect industrial-using job growth in Suburban Maryland to pick up over the next few years. Growth should be concentrated within local delivery/distribution services and pharmaceutical manufacturing.

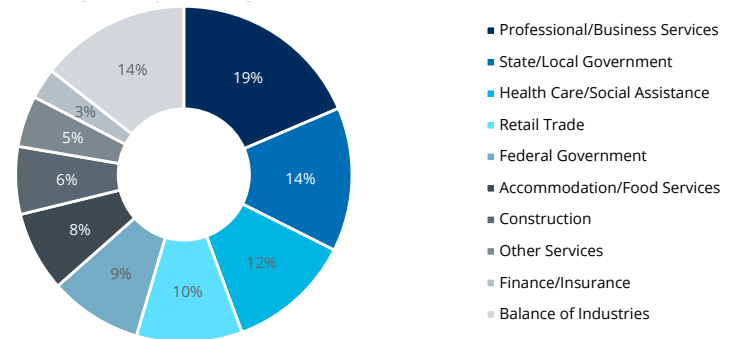
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

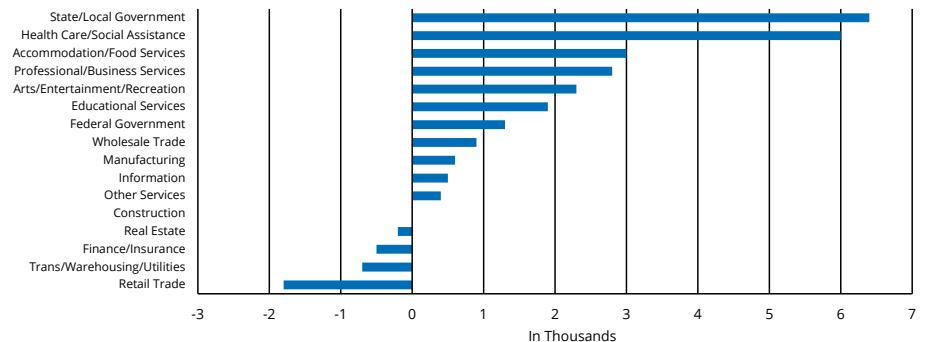
Suburban Maryland | January 2023



Source: Bureau of Labor Statistics, Transwestern

**Y-O-Y CHANGE IN JOBS BY INDUSTRY**

Suburban Maryland



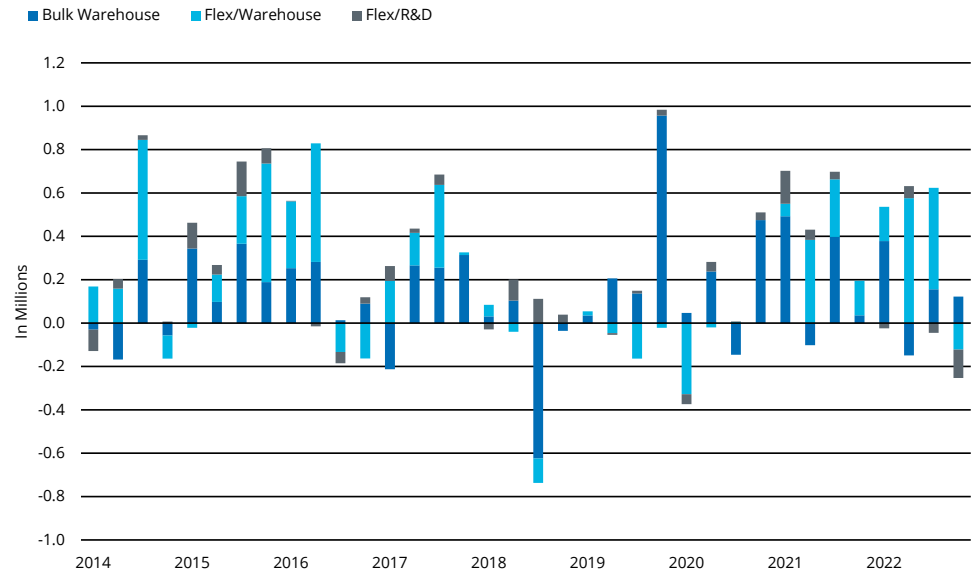
Source: Bureau of Labor Statistics, Transwestern

**NET ABSORPTION**

**Limited Leasing Leads to Negative Net Absorption**

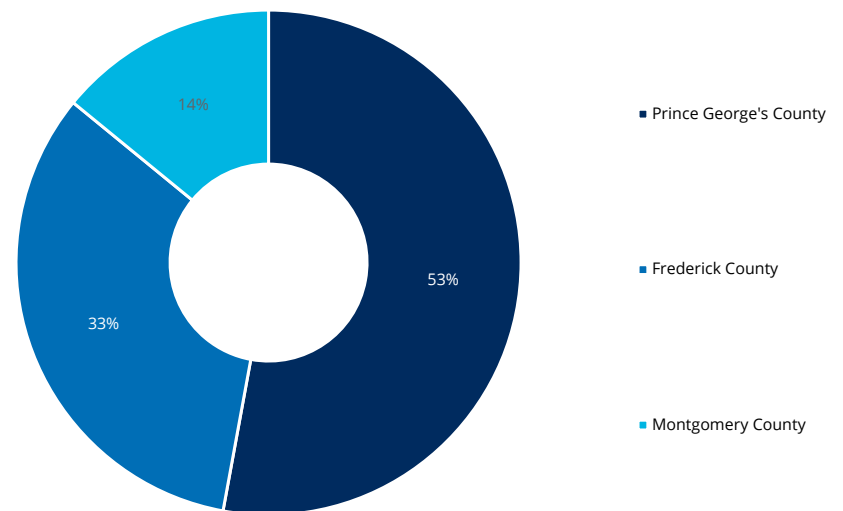
- Net absorption totaled negative 131,000 SF during the first quarter of 2023, after totaling positive 579,000 SF during the fourth quarter of 2022. This is the first time since the fourth quarter of 2020 where total net absorption was negative.
- Frederick County had the strongest net absorption during the quarter with 121,000 SF and 462,000 SF year-over-year. Both Montgomery and Prince George’s County totaled negative net absorption to finish the quarter.
- One of the largest highlights of the quarter was WMATA signing for 90,898 SF at 6304 Sheriff Road in Prince George’s County. Quality Biological also signed a 24,103 SF lease at 15801-15813 Gaither Road in Montgomery County. Quality Biological was represented by Transwestern in the deal.
- Countering this positive net absorption slightly were a couple of mid-sized move outs that occurred over the quarter. ENI Distribution vacated 40,000 SF at 5851 Ammendale Road in Prince George’s County while Alperstein vacated 26,174 SF at 6201-6231 Columbia Park Road, also in Prince George’s County.
- While net absorption totaled negative this quarter, we expect net absorption to remain healthy over the next several quarters in Suburban Maryland. Limited inventory and continued demand will allow for growth to remain constant, however likely at a lesser rate than recent quarters given the economic climate.

**NET ABSORPTION BY PRODUCT TYPE**



Source: CoStar, Transwestern

**SHARE OF LEASING ACTIVITY BY SUBMARKET**  
YTD 2023



Source: CoStar, Transwestern

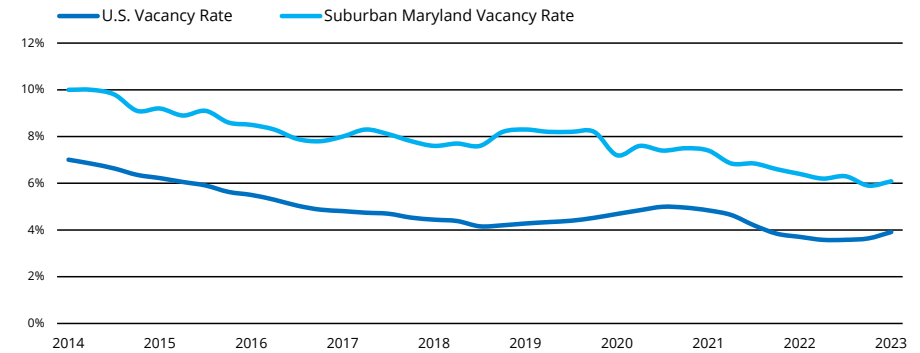


### VACANCY

#### Vacancy Rate Declines Slightly

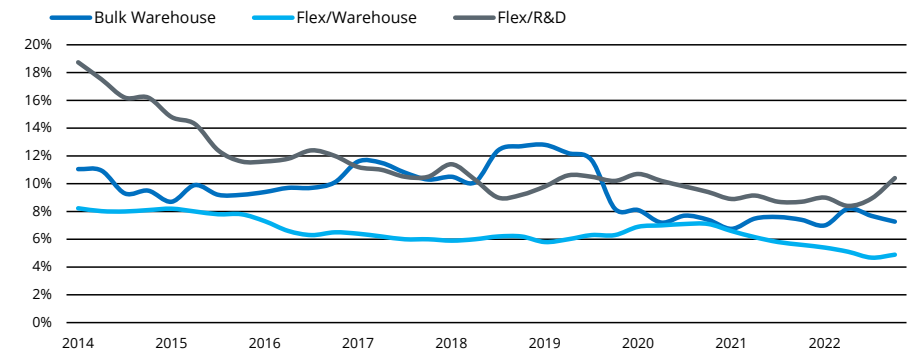
- The direct vacancy rate increased 20 basis points to 6.1% at March 2023 and is down from 6.4% one year ago. The rate is below pre-pandemic levels and is also below the five-year average of 7.7%.
- Flex/warehouse had the lowest rate at 4.9% during the quarter, up from 4.7% the quarter prior. Bulk warehouse decreased to 7.3%, from 7.7% the quarter prior.
- Montgomery County continues to hold the highest vacancy rate at 7.1% which increased 20 basis points due to multiple smaller moveouts outpacing leasing activity. Frederick County followed at 6.2% which is a 50-basis point decrease from last quarter, and Prince George’s County increased 40 basis points to 5.7%.
- The vacancy rate should steadily decline during the balance of 2023. However, the decline will likely not be as steep as during the height of the pandemic.

### DIRECT VACANCY RATE



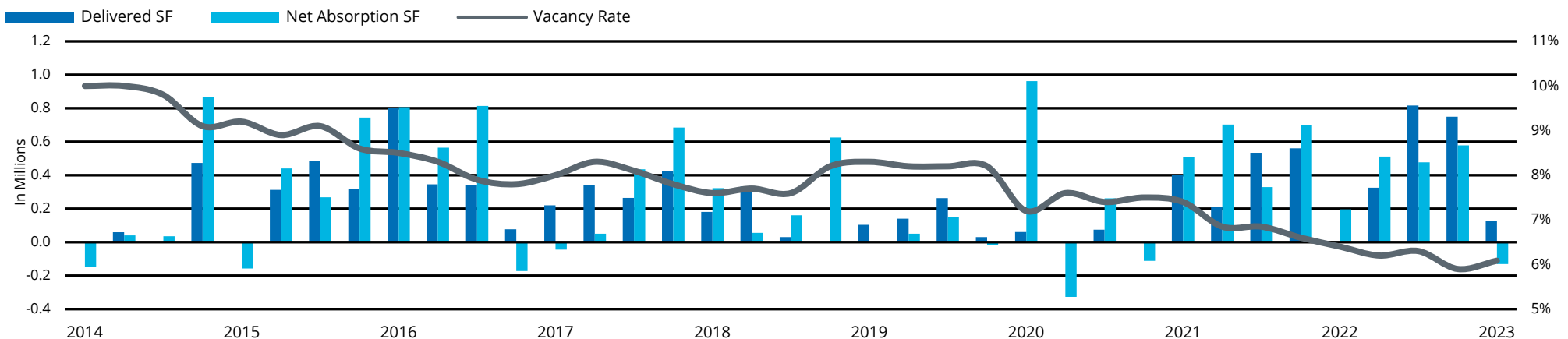
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

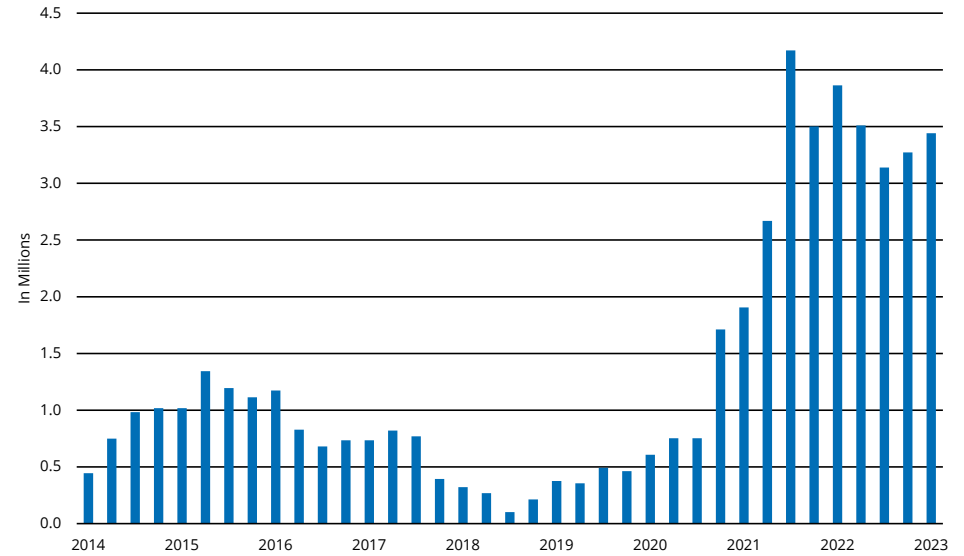


### UNDER CONSTRUCTION

#### Three Projects Deliver to Start the Year

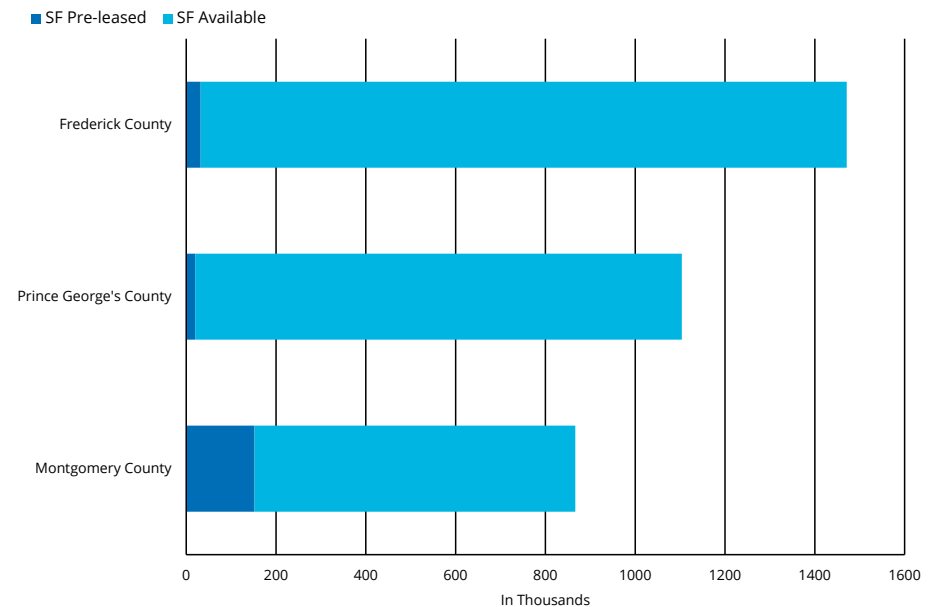
- Three projects delivered during the first quarter of 2023, totaling 127,679 SF. These projects came online at 53% pre-leased.
- There is 3.4 million SF under construction at 6% pre-leased as of March 2023, up from 3.2 million SF during the fourth quarter of 2022, but down from 3.9 million SF one year ago. Frederick County continues to have the most construction volume underway with 1.4 million SF.
- The most notable project in the pipeline is still 16001 Mattawoman Drive, an 801,500 SF bulk warehouse project in Prince George’s County. The building, with a 40-foot ceiling height, is expected to deliver by the fourth quarter of 2023. The largest project in Frederick is 8995-9063 Gas House Pike – Frederick Commerce Center, a 684,000 SF bulk warehouse, which is expected to deliver by third quarter of 2023.
- With steady demand and limited quality supply, we expect future groundbreakings. The pipeline should grow over the next year to meet these requirements. However, inflation, rising rates, and zoning issues might deter select developers.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

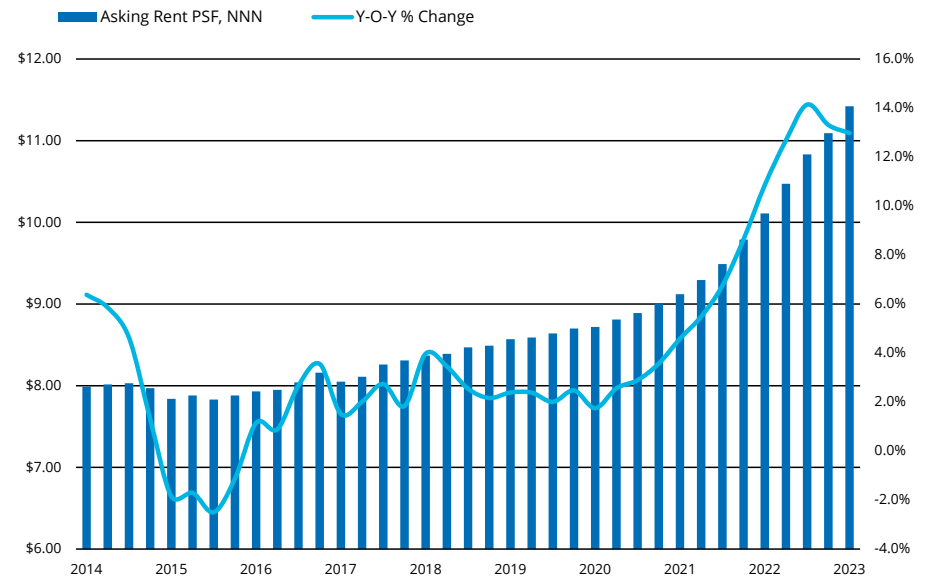


### RENTAL RATES

#### Rent Spikes Continue

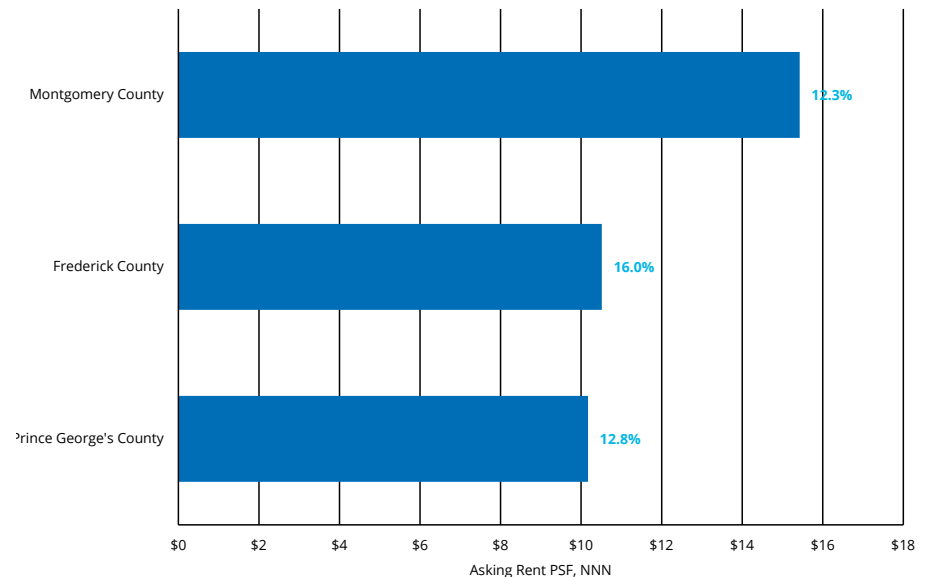
- Industrial asking rents increased 3.0% during the first quarter of 2022, landing at \$11.42 PSF. Rent growth remains strong at 12.9% year-over-year.
- Rents inched up for bulk warehouse during the quarter, rising 0.4% to \$9.27 PSF. Flex/warehouse climbed 3.6% to \$11.95 PSF and flex/R&D increased 5.0% to \$14.95 PSF.
- Rents continue to increase across all submarkets, but Montgomery County continues to outperform the rest, with asking rates finishing the quarter at \$15.43 PSF, up 2.1%.
- We expect rent growth to continue over the year as the vacancy rate is low enough to justify rent gains. Growth will remain strongest close to the core submarkets and along the I-270 Corridor. However, rent growth has likely reached its peak and growth, although strong, will likely decelerate in 2023.

### ASKING RENT



Source: CoStar, Transwestern

### ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

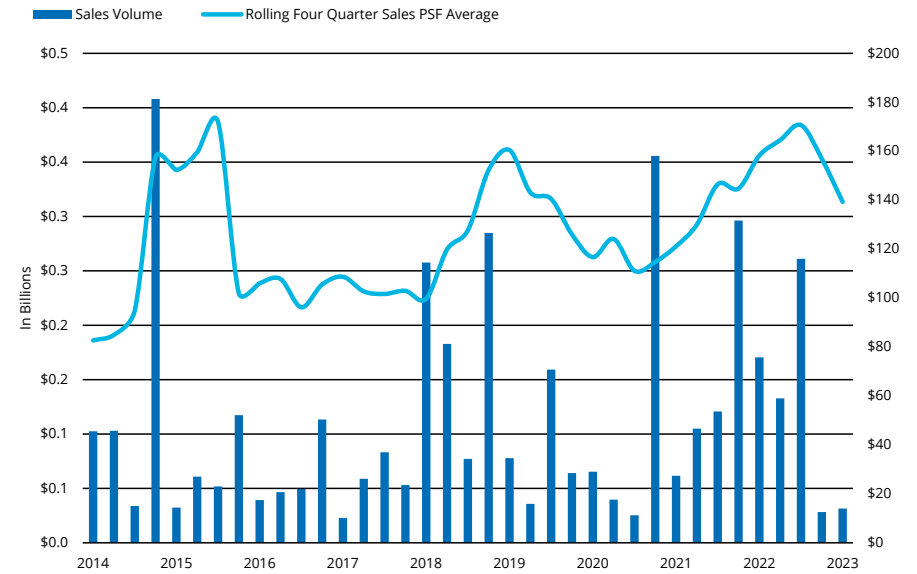


## SALES

### Sales Volume Increase in Q1

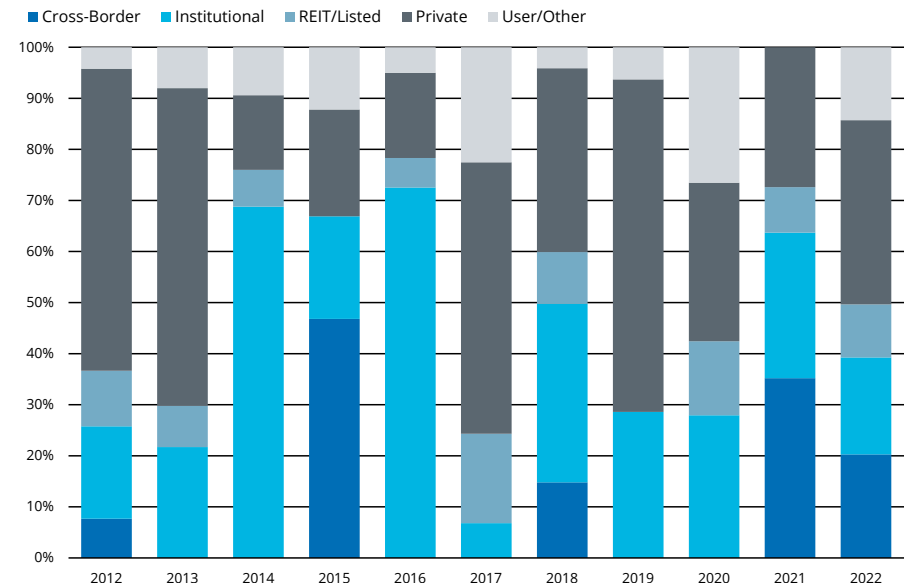
- Investment sales totaled \$31.5 million during the first quarter of 2023 on eight transactions, all of which were flex/warehouse. This compares to six transactions at \$28.2 million during the fourth quarter of 2022.
- This is the second lowest quarterly sales volume of the past five quarters, as shifts in economic conditions have impacted the rate in which they are done.
- The most notable deal occurred at 627 N Horners Lane in Montgomery County. Sonny Kakar purchased this 35,000 SF bulk warehouse asset from Marc F. Soloman for \$5.2 million or \$151 PSF. This was part of an industrial portfolio sale where 649 N Horners Lane was sold as well.
- We expect investment sales volume to remain steady through 2023, but cool slightly as investors put the pencils down until the economic climate improves, driven in part by when the Fed will stop raising rates.

## SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

## BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



## NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
WMATA	6304 Sheriff Rd	Prince George's County	New Lease	91,000
DRS SIGNAL SOLUTIONS	4910 Executive Ct South	Frederick County	New Lease	88,000
RIVIAN	716 Ritchie Rd	Prince George's County	Sublease	85,000
NASA GSFC STORAGE WAREHOUSE	8660 Cherry Ln	Prince George's County	New Lease	42,000
BACKUP BEVERAGE	4600 Wedgewood Blvd	Frederick County	New Lease	31,000
PEARL-WILCOXON CONSTRUCTION INC.	15120 Southlawn Ln	Montgomery County	Renewal	31,000

Source: CoStar, CompStak, Transwestern.

## NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
627 N HORNERS LN	Montgomery	Feb-23	\$5,277,778	35,000	\$151	Sonny Kakar	Marc F. Soloman
649 N HORNERS LN	Montgomery	Feb-23	\$4,222,222	28,000	\$151	Sonny Kakar	Marc F. Soloman
3450 BLADENSBURG RD	Prince George's	Jan-23	\$6,511,536	76,000	\$86	Granite Canyon Partners	Decker Development Company
3342 BLADENSBURG RD	Prince George's	Jan-23	\$5,015,369	64,560	\$78	Granite Canyon Partners	Decker Development Company
3570 BLADENSBURG RD	Prince George's	Jan-23	\$3,371,105	35,000	\$96	Granite Canyon Partners	Decker Development Company
3554 BLADENSBURG RD	Prince George's	Jan-23	\$2,986,215	31,004	\$96	Granite Canyon Partners	Decker Development Company

Source: CoStar, Real Capital Analytics, Transwestern.

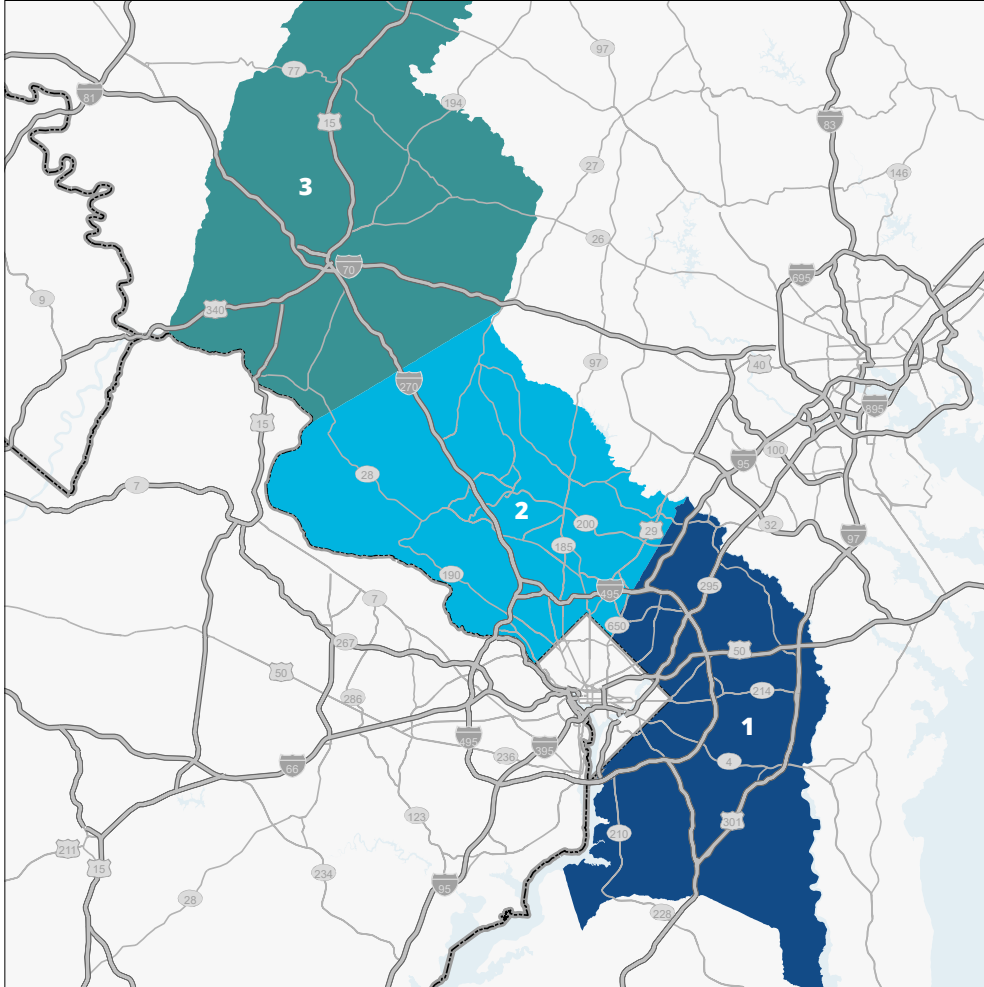


**MARKET INDICATORS**

All Classes of Space | Q1 2023

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, NNN
<b>BULK WAREHOUSE</b>	20,532,877	1,299,731	6.3%	6.6%	1,083,901	35,000	499,000	\$9.21
<b>FLEX/WAREHOUSE</b>	35,350,746	1,795,171	5.1%	5.3%	20,000	(158,000)	553,000	\$10.36
<b>FLEX/R&amp;D</b>	2,551,955	206,708	8.1%	10.2%	0	(13,000)	26,000	\$15.40
<b>PRINCE GEORGE'S COUNTY</b>	<b>58,435,578</b>	<b>3,301,610</b>	<b>5.7%</b>	<b>6.0%</b>	<b>1,103,901</b>	<b>(136,000)</b>	<b>1,078,000</b>	<b>\$10.17</b>
<b>BULK WAREHOUSE</b>	2,602,549	7,808	0.3%	0.3%	197,400	0	42,000	\$13.96
<b>FLEX/WAREHOUSE</b>	15,432,803	973,282	6.3%	6.4%	669,140	32,000	85,000	\$15.98
<b>FLEX/R&amp;D</b>	4,469,884	625,784	14.0%	14.0%	0	(148,000)	(228,000)	\$14.38
<b>MONTGOMERY COUNTY</b>	<b>22,505,236</b>	<b>1,606,874</b>	<b>7.1%</b>	<b>7.2%</b>	<b>866,540</b>	<b>(116,000)</b>	<b>(101,000)</b>	<b>\$15.43</b>
<b>BULK WAREHOUSE</b>	6,471,087	844,477	13.1%	13.4%	1,075,420	87,000	(34,000)	\$7.58
<b>FLEX/WAREHOUSE</b>	10,631,033	234,222	2.2%	2.9%	395,526	4,000	442,000	\$11.39
<b>FLEX/R&amp;D</b>	1,850,242	90,662	4.9%	4.9%	0	30,000	54,000	\$15.72
<b>FREDERICK COUNTY</b>	<b>18,952,362</b>	<b>1,169,361</b>	<b>6.2%</b>	<b>6.7%</b>	<b>1,470,946</b>	<b>121,000</b>	<b>462,000</b>	<b>\$10.52</b>
<b>BULK WAREHOUSE</b>	9,023,042	1,051,185	7.3%	7.5%	2,356,721	122,000	507,000	\$9.27
<b>FLEX/WAREHOUSE</b>	61,414,582	3,002,675	4.9%	5.2%	1,084,666	(122,000)	1,080,000	\$11.95
<b>FLEX/R&amp;D</b>	8,872,081	923,154	10.4%	11.0%	0	(131,000)	(148,000)	\$14.95
<b>TOTAL</b>	<b>99,893,176</b>	<b>6,077,845</b>	<b>6.1%</b>	<b>6.4%</b>	<b>3,441,387</b>	<b>(131,000)</b>	<b>1,439,000</b>	<b>\$11.42</b>

Source: CoStar, Transwestern



### Suburban Maryland Industrial Submarkets

- 1** Prince George's County
- 2** Montgomery County
- 3** Frederick County

### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Suburban Maryland. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding those properties owned by a government agency.

### FOR MORE INFORMATION

**Elizabeth Norton**

Senior Managing Research Director  
Research Services  
Elizabeth.Norton@transwestern.com  
202-775-7026

**Jared Reinson**

Research Analyst  
Research Services  
Jared.Reinson@transwestern.com  
202-775-7030

### ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with good ideas, the firm drives value for clients across commercial real estate services, development, investment management, and opportunistic endeavors for high-net-worth investors. Operating from 33 U.S. offices, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at [transwestern.com](http://transwestern.com) and [@Transwestern](https://twitter.com/Transwestern).