TRANSWESTERN

NORTHERN VIRGINIA INDUSTRIAL MARKET

Q1 2023

TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.5	2.5	↔	3.3	↓
NET ABSORPTION (Thousands SF)	296.0	653.0	↓	275.1	↑
DIRECT VACANCY RATE	5.0%	5.1%	↓	6.5%	↓
DIRECT VACANT SF (MSF)	4.5	4.6	↓	5.7	↓
UNDER CONSTRUCTION (MSF)	0.9	0.7	↑	0.9	↑
ASKING RENT, NNN (PSF)	$13.20	$11.57	↑	$10.78	↑
SALES VOLUME (Millions)	$0.0	$78.9	↓	$253.7	↑

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

INDUSTRIAL MARKET REMAINED STRONG IN FIRST QUARTER

The Northern Virginia industrial market continued its string of strong performance with a total net absorption of 296,000 SF. This was contributed by multiple large-scale construction projects delivering with high levels of pre-leasing and several leases. The direct vacancy rate slightly increased by 10-basis points to 5.0% with select projects delivering vacant or minimally leased. As market conditions remain tight, asking rental rates increased 3.8% for the quarter, averaging $13.20 PSF, with a 14.1% increase year-over-year.

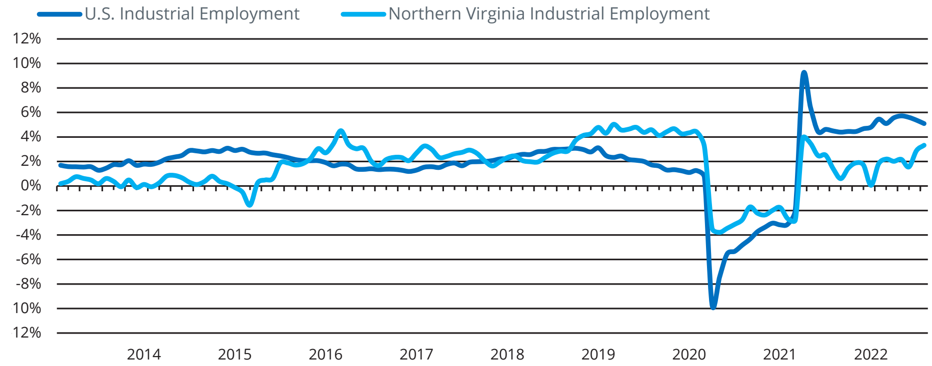
The industrial market has been on a super charged growth path, resulting in historically low vacancy rate and surges in rent growth. We expect industrial will remain a favored property type over the next year. Industrial buildings that focus on distribution of product, specifically grocery and household 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

Industial-Using Jobs Continue to Grow

- 51,700 new jobs were added to the Northern Virginia economy during the 12-months ending in January 2023. The industry sectors that experienced the largest growth in the timespan were Professional & Business Services and Leisure & Hospitality, which added 12,500 and 12,300 new jobs respectively.
- Industrial-using jobs had steady growth in the past 12 months ending in January 2023, adding 10,700 new jobs. The construction sector performed the strongest by adding 5,700 new jobs to the market.
- The unemployment rate in Northern Virginia is 2.8% in January 2023. Arlington County continues to have one of the lowest unemployment rates in the Washington metro area at 2.4%.
- We expect industrial-using job growth in Northern Virginia to continue to steadily grow over the coming years. Growth will likely be driven by transportation and e-commerce.

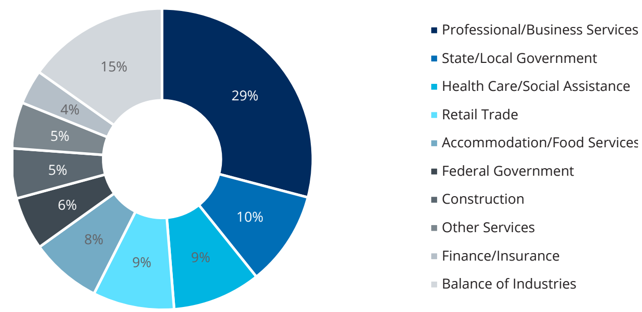
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

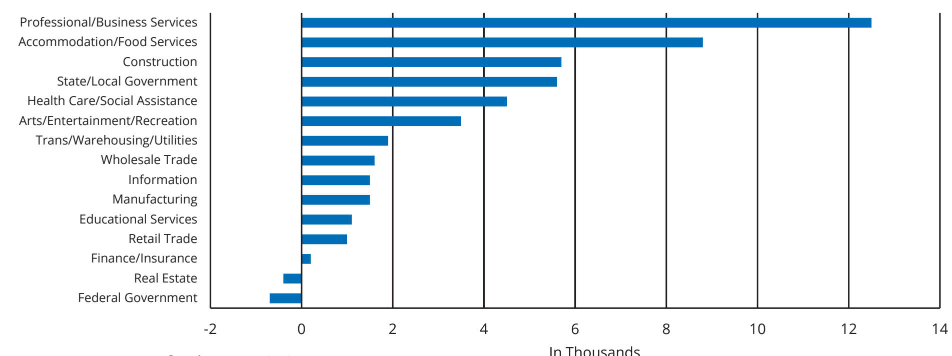
Northern Virginia | January 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



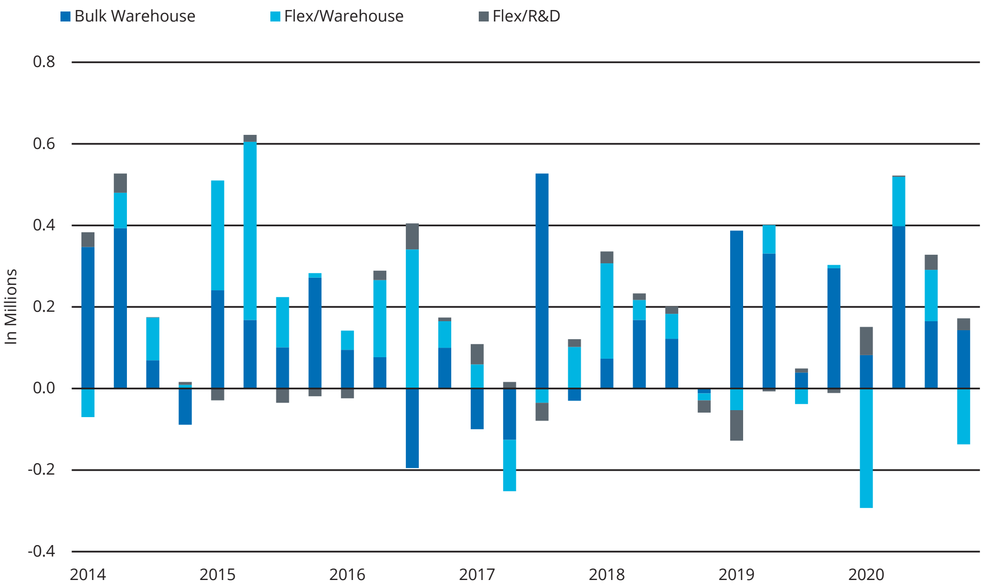
Source: Bureau of Labor Statistics, Transwestern

NET ABSORPTION

2023 Opens with Strong Performance

- The Northern Virginia industrial market experienced decent strengthening in the first quarter, totaling 296,000 SF. This marks the 11th straight quarter of positive net absorption for the market.
- Net absorption was boosted by GXO signing and moving into their 121,640 SF pre-leased delivery at 12875 Randolph Ridge Lane. Another notable deal was RCS Moving inking 68,218 SF at 9610 Gunston Cove Road. A noteworthy renewal was Giesecke & Devrient remaining in their 71,753 SF space at 45935 Horseshoe Drive.
- Prince William County was the largest source of positive absorption for the first quarter, totaling 154,000 SF. This was anchored by GXO's lease at 12875 Randolph Ridge Lane. Another lease that aided in positive absorption was Lennox Industries signing for 16,131 SF at 10642-10662 Wakeman Court. Dulles Corridor was a close second in absorption, totaling 118,000 SF.
- We expect net absorption to trend positive throughout 2023 as demand for industrial remains high. However, the pace of absorption could begin to temper given the economic climate.

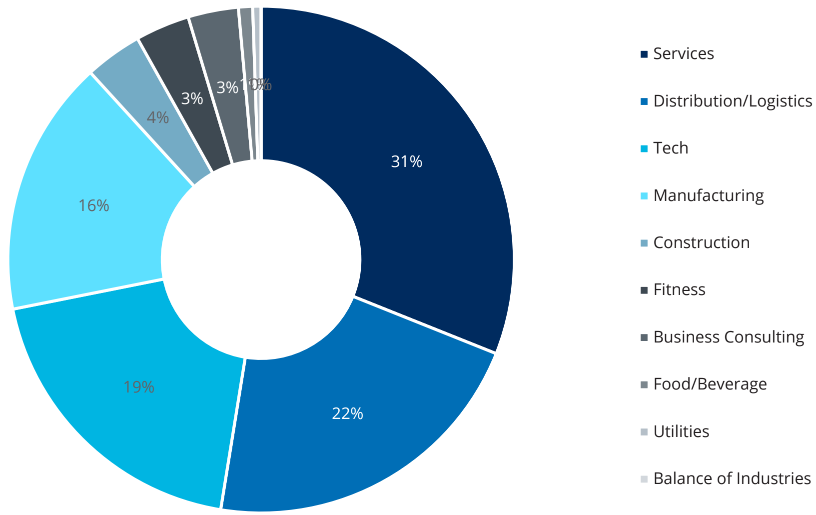
NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY

YTD 2023



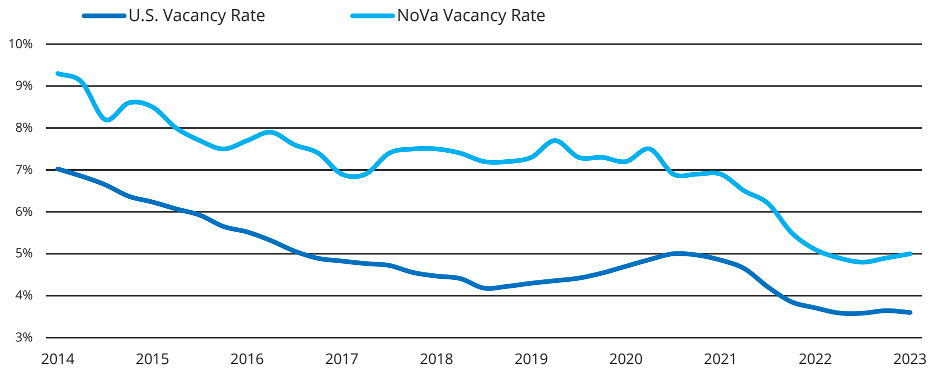
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Maintains Moving Into 2023

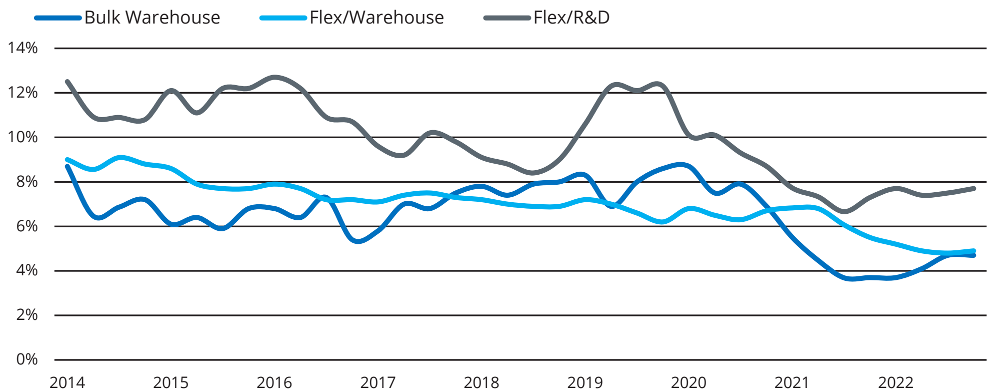
- The direct vacancy rate edged up by 10-basis points to 5.0%. This is the first quarter to be at or above 5.0% since the first quarter of 2022.
- The flex/warehouse vacancy rate increased 10-basis point to 4.9%. While bulk warehouse vacancy rate remained steady at 4.7%, and Flex/R&D increasing by 20-basis points to 7.7%.
- The I-95 Corridor had the steepest vacancy rate decline, edging 20-basis points down to 1.5%, the lowest in Northern Virginia. Prince William County experienced the largest rise in vacancy rate, increasing by 40-basis points to 6.0%.
- The vacancy rate is likely to remain steady during 2023. Although pre-leasing for construction is relatively low, high-quality industrial space is leasing quickly due to a tight market.

DIRECT VACANCY RATE



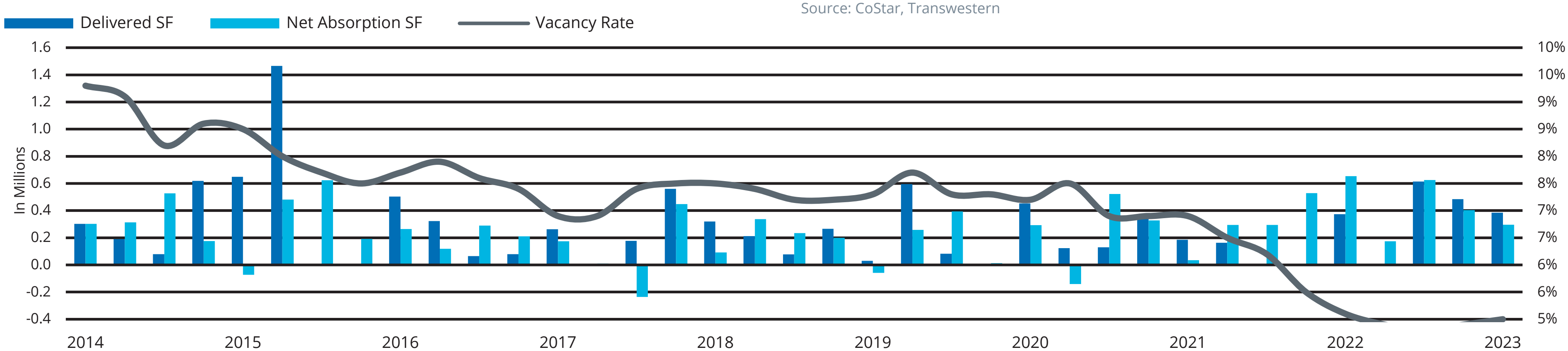
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



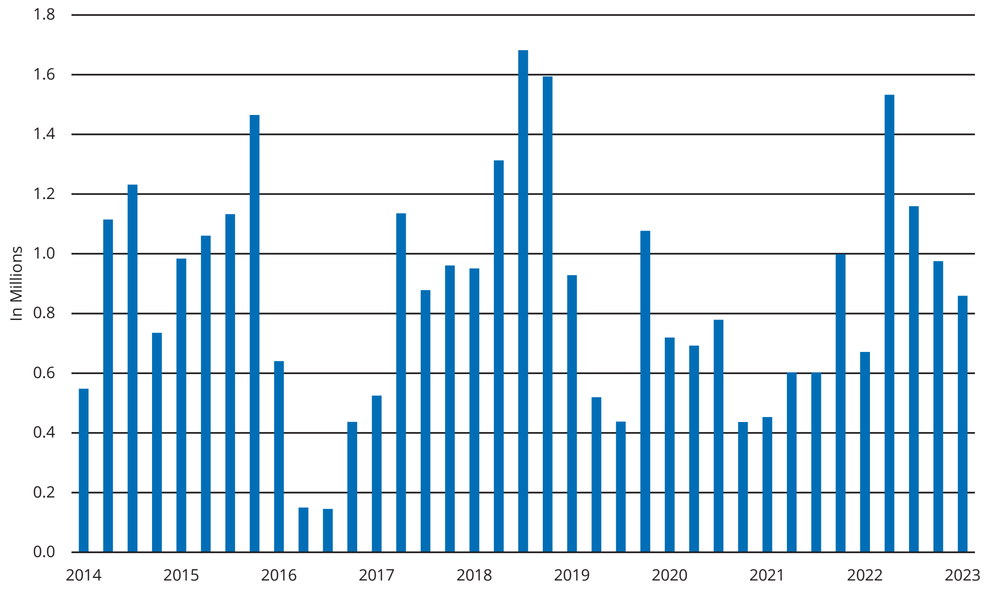
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Several Projects Deliver with Mixed Results in Pre-Leasing

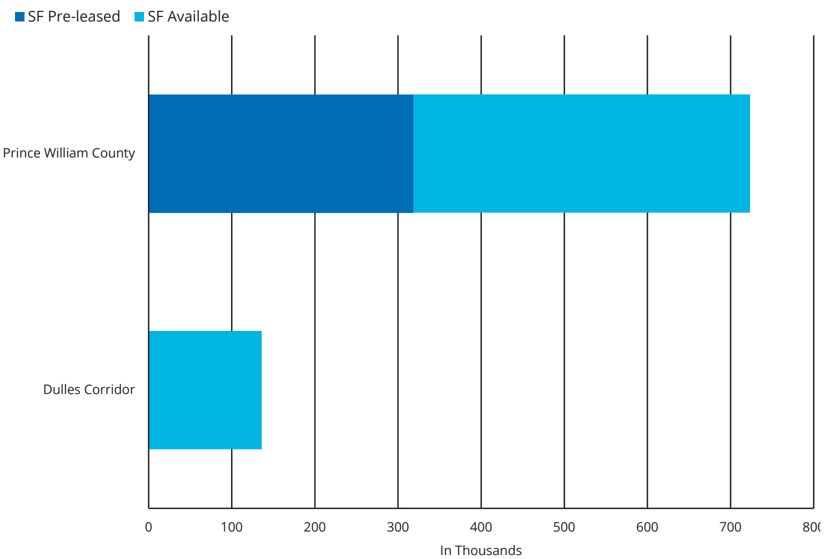
- Five projects delivered in the first quarter, adding 384,840 SF to the inventory at 49% pre-leased. The largest project was 7325 Groveton Road in Prince William County that delivered 127,420 SF with 0% pre-leased.
- The current pipeline has 859,536 SF under construction with 37% pre-leased. The largest project underway continues to be 10225 Golf Academy Drive in Prince William County, which totals 209,193 SF and is 100% pre-leased to PODS Enterprises.
- The construction pipeline currently holds nine projects that are projected to be delivered throughout 2023 with several being delivered in the second or third quarter.
- We expect construction levels to decelerate as economic factors such as inflation and high construction cost weigh on developers before committing to projects.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



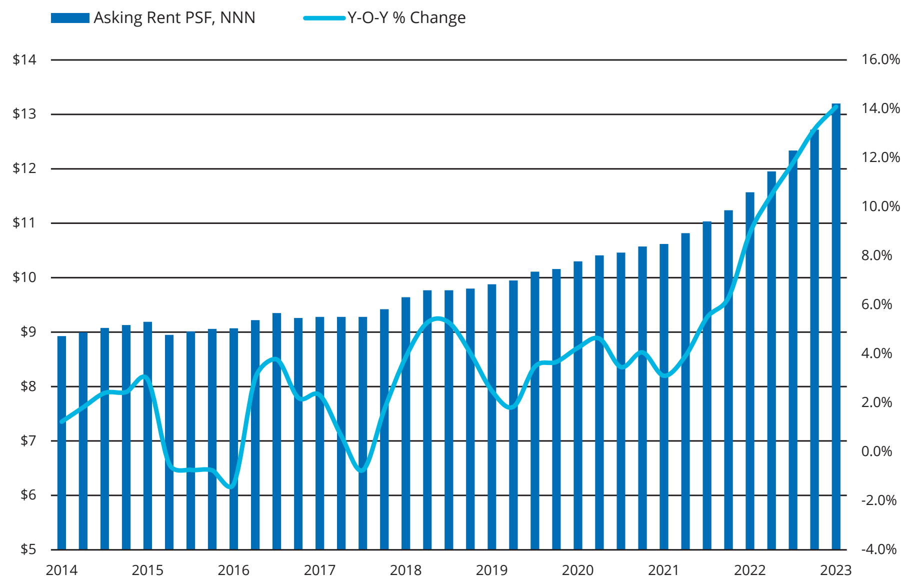
Source: CoStar, Transwestern

RENTAL RATES

Asking Rent Growth Continues Upward Trend

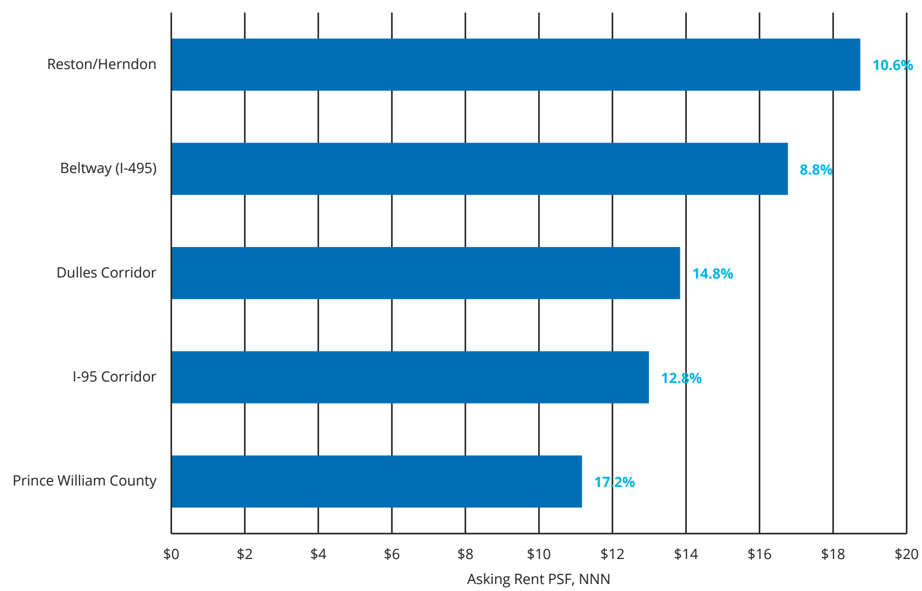
- Asking rents rose 380-basis points to $13.20 PSF. Bulk warehouse continues to have the sharpest rise in rental rates, increasing 17.8% year-over-year, averaging $12.27 PSF, up from $10.42 PSF in the first quarter of 2022. Prince William County had the largest year-over-year increase with a 17.2% rise to $11.17 PSF, from $9.53 PSF in the first quarter of 2022.
- As demand for industrial space persists, rental rates increased 380-basis points in the quarter. Reston/Herndon had the largest increase across the quarter, rising 10.9% to $18.74 PSF, from $16.90 PSF in the last quarter of 2022.
- Reston/Herndon continues to be the submarket with the highest asking rent at $18.74 PSF, with the second highest being the I-495 Beltway at $16.77 PSF.
- We expect rent growth to continue in the coming months of 2023 as demand for industrial space persists. This growth may be supported by high-quality vacant product entering the market, justifying landlord's increasing asking rates.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



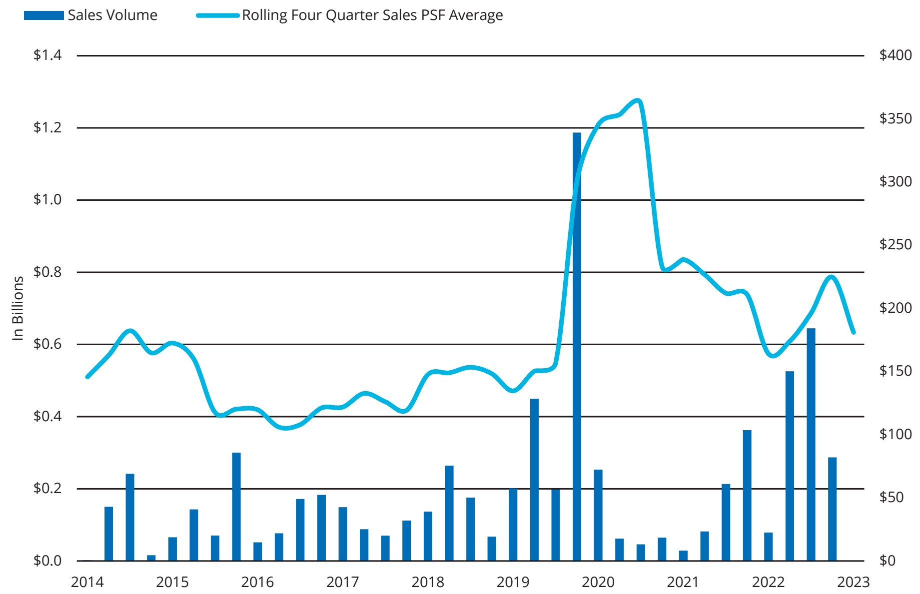
Source: CoStar, Transwestern

SALES

Investment Sales Pause at Beginning of 2023

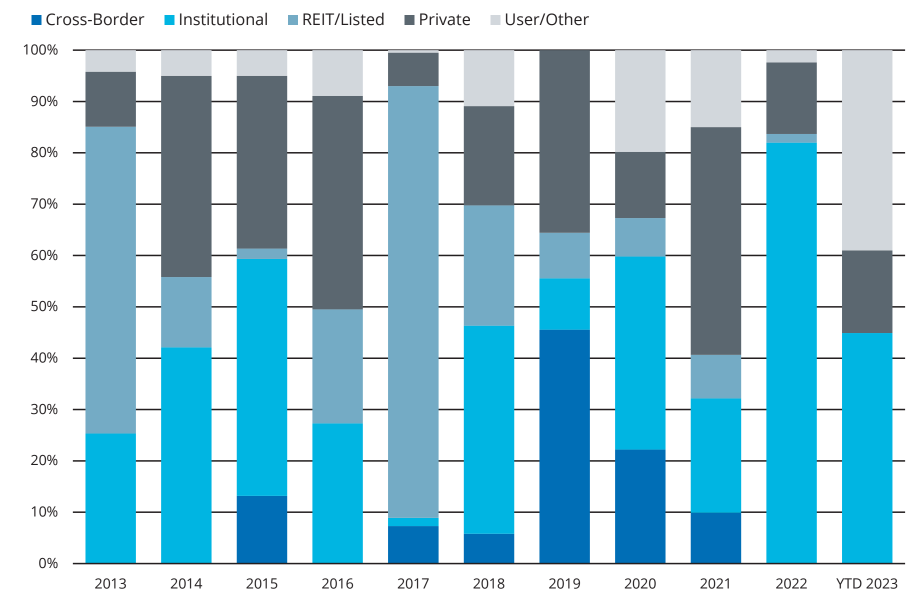
- There were no notable industrial sale transactions during the first quarter of 2023. There were 21 transactions in the fourth quarter of 2022, totaling $323.6 million or $515 PSF. This compares to 17 transactions totaling $1.5 billion or $272 PSF.
- Activity likely cooled in the beginning of 2023, as select investors are sidelined due to the current economic climate and continuous Federal Reserve interest rate increases.
- Transaction volume will likely remain limited in 2023 due to limited liquidity, ongoing price discovery, and investors giving an overall pause to wait for economic conditions to become clearer.

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
GXO	12875 Randoph Ridge Ln	Prince William County	New Lease	121,640
GIESECKE & DEVRIENT	45935 Horseshoe Dr	Dulles Corridor	Renewal	71,753
RCS MOVING	9610 Gunston Cove Rd	I-95 Corridor	New Lease	68,218
RAYTHEON	23031 Ladbrook Dr	Dulles Corridor	New Lease	43,804
ASAP MAILING SERVICES	45055 Underwood Ln	Dulles Corridor	Sublease	17,143

= Transwestern deal

Source: CoStar, CompStak, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
8395 EUCLID AVE	Prince William County	Nov-22	$6,800,000	60,450	$112	Undisclosed	Ferguson Realty, Inc.
11441 ROBERTSON DR	Prince William County	Nov-22	$4,600,000	17,045	$270	Fortified Property Group	William Hamp III
14526 LEE RD	Dulles Corridor	Oct-22	$6,250,000	31,242	$200	Euro Stone Craft	Chang D. Hwang
22815 GLENN DR	Dulles Corridor	Oct-22	$39,940,508	126,841	$315	Prologis, LP.	Duke Realty Corporation
22879 GLENN DR	Dulles Corridor	Oct-22	$29,770,936	94,545	$315	Prologis, LP.	Duke Realty Corporation

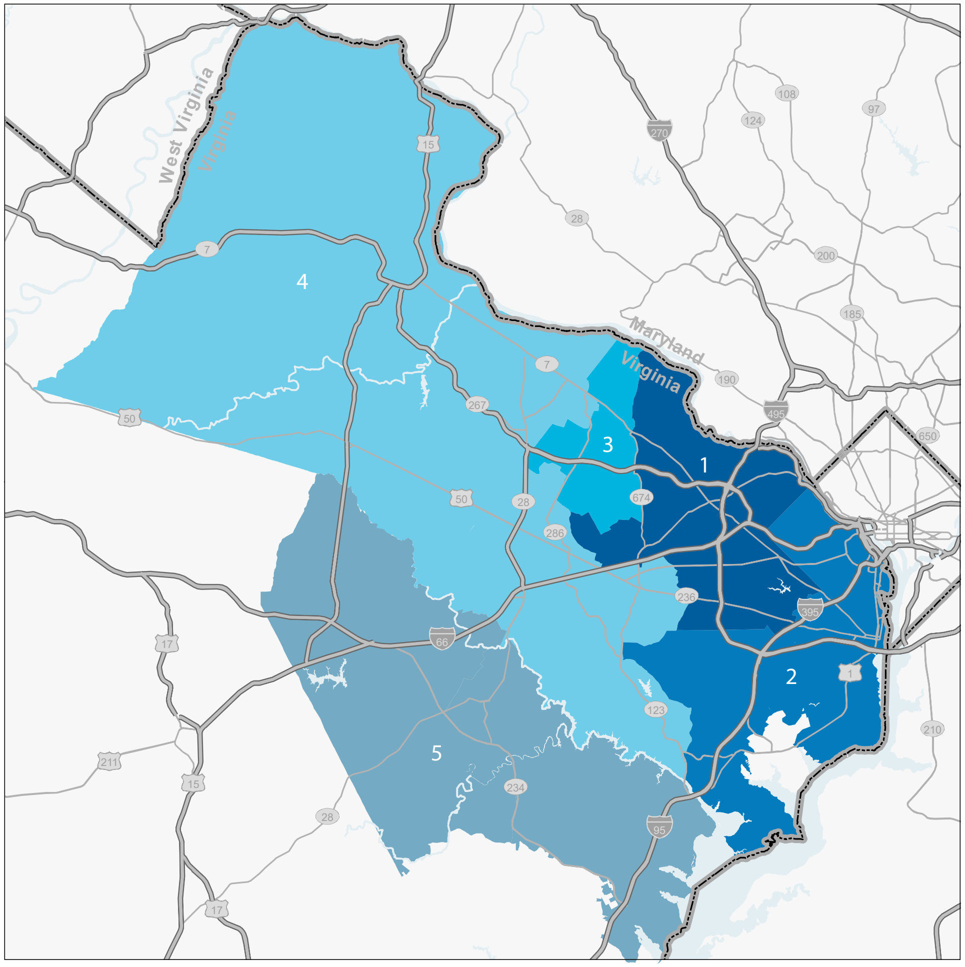
Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS

All Property Types | 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
BULK WAREHOUSE	304,912	3,049	1.0%	1.0%	0	0	0	N/A
FLEX/WAREHOUSE	3,180,356	106,156	3.3%	3.8%	0	(10,000)	0	$16.88
FLEX/R&D	366,459	71,826	19.6%	19.6%	0	0	(17,000)	$15.83
BELTWAY (I-495)	**3,851,727**	**181,031**	**4.7%**	**5.1%**	**0**	**(10,000)**	**(17,000)**	**$16.77**
BULK WAREHOUSE	4,938,241	74,074	1.5%	1.7%	0	69,000	112,000	$12.58
FLEX/WAREHOUSE	18,769,458	204,359	1.1%	1.2%	0	(46,000)	66,000	$12.76
FLEX/R&D	1,210,412	105,306	8.7%	8.7%	0	10,000	(2,000)	$18.10
I-95 CORRIDOR	**24,918,111**	**383,739**	**1.5%**	**1.7%**	**0**	**32,000**	**176,000**	**$12.99**
BULK WAREHOUSE	70,982	0	0.0%	0.0%	0	0	0	N/A
FLEX/WAREHOUSE	1,568,332	116,895	7.5%	7.5%	0	2,000	22,000	$19.82
FLEX/R&D	555,023	43,292	7.8%	7.8%	0	0	3,000	$15.69
RESTON/HERNDON	**2,194,337**	**160,187**	**7.3%**	**7.3%**	**0**	**2,000**	**25,000**	**$18.74**
BULK WAREHOUSE	13,051,625	828,778	6.4%	6.8%	70,400	(46,000)	347,000	$11.85
FLEX/WAREHOUSE	22,697,909	1,562,301	6.9%	7.0%	65,600	182,000	465,000	$14.78
FLEX/R&D	2,263,869	106,402	4.7%	4.9%	0	(18,000)	(18,000)	$15.88
DULLES CORRIDOR	**38,013,403**	**2,497,481**	**6.6%**	**6.8%**	**136,000**	**118,000**	**794,000**	**$13.84**
BULK WAREHOUSE	6,846,514	287,554	4.2%	4.2%	692,536	206,000	369,000	$12.86
FLEX/WAREHOUSE	14,076,996	944,720	6.7%	6.7%	31,000	(51,000)	141,000	$10.29
FLEX/R&D	363,066	40,663	11.2%	11.2%	0	0	15,000	$13.29
PRINCE WILLIAM COUNTY	**21,286,576**	**1,272,937**	**6.0%**	**6.0%**	**723,536**	**154,000**	**525,000**	**$11.17**
BULK WAREHOUSE	25,212,274	1,193,455	4.7%	5.0%	762,936	229,000	828,000	$12.27
FLEX/WAREHOUSE	60,293,051	2,934,431	4.9%	5.0%	96,600	77,000	694,000	$13.34
FLEX/R&D	4,758,829	367,489	7.7%	7.8%	0	(8,000)	(19,000)	$16.22
TOTAL	**90,264,154**	**4,495,375**	**5.0%**	**5.1%**	**859,536**	**296,000**	**1,503,000**	**$13.20**

Source: CoStar, Transwestern



NORTHERN VIRGINIA INDUSTRIAL SUBMARKETS

1 Beltway (I-495)
2 I-95 Corridor
3 Reston/Herndon
4 Dulles Corridor
5 Prince William County

RESEARCH METHODOLOGY

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

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 and @Transwestern.

FOR MORE INFORMATION

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

Trey Wells
Senior Researcher | Mid-Atlantic
Robert.Wells@transwestern.com
202-775-7015