

# DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q1 2023

## TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.4	5.9	↓	6.1	↓
NET ABSORPTION (THOUSANDS SF)	(74.0)	73.0	↓	(8.0)	↔
DIRECT VACANCY RATE	4.1%	4.8%	↓	5.6%	↓
DIRECT VACANT SF (MSF)	0.4	0.5	↓	0.5	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↔	0.0	↔
ASKING RENT, NNN (PSF)	\$16.00	\$14.80	↑	\$14.36	↑

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

## INDUSTRIAL MARKET CONTRACTS IN Q1 2023

The District of Columbia industrial market contracted during the first quarter of 2023. Net absorption totaled negative 74,000 SF and the direct vacancy rate increased 80 basis points to 4.1% driven by multiple mid-sized moveouts and a lack of leasing activity. Despite this, the market remains tight enough to push rents upward. Asking rent increased 290 basis points, ending the quarter at \$16.00 PSF.

The industrial market has been on a super charged growth path, resulting in historically low vacancy rate and surges in rent growth. Despite the soft quarter, 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.

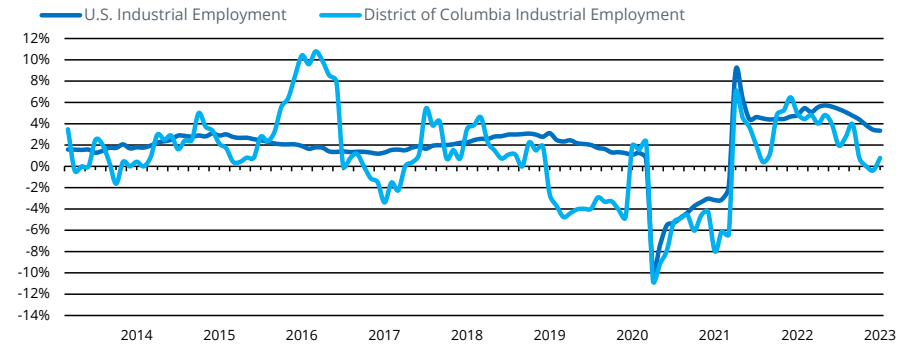


**ECONOMY**

**Industrial Job Growth Mild**

- 15,200 new jobs were added to the District of Columbia economy during the 12-months ending January 2023, which is well-ahead of the pre-pandemic 5-year average of 9,800. This was driven by the restaurants and bars.
- Industrial-using jobs added 200 positions during the 12 months ending January 2023, below the pre-pandemic 5-year average of 300. Most of this gain occurred within the Wholesale Trade & Transportation, Warehousing, & Utilities sectors.
- The unemployment rate for the District of Columbia is currently at 4.9% as of January 2023 and averaged 4.4% for the past three months. The rate is down from 6.3% one year ago and is down notably since the peak of 10.4% in April 2020.
- We expect industrial job growth in the District of Columbia to be minimal over the next several years, due to limited industrial space in the District as compared to the surrounding suburban area. Most growth will occur within construction and consumer services.

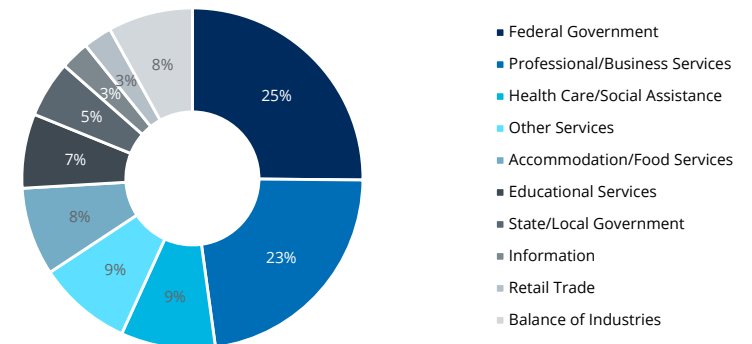
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

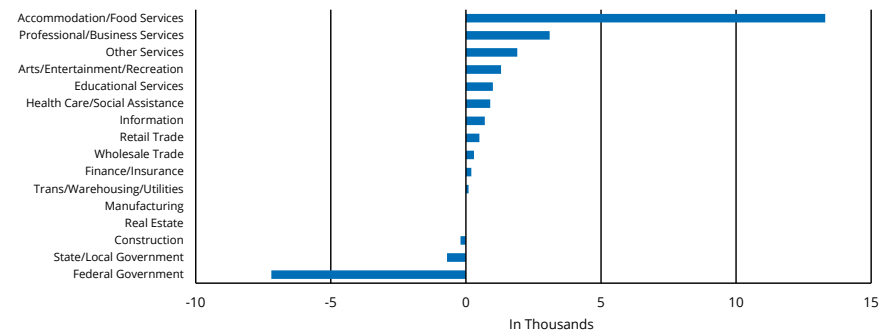
District of Columbia | January 2023



Source: Bureau of Labor Statistics, Transwestern

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

District of Columbia



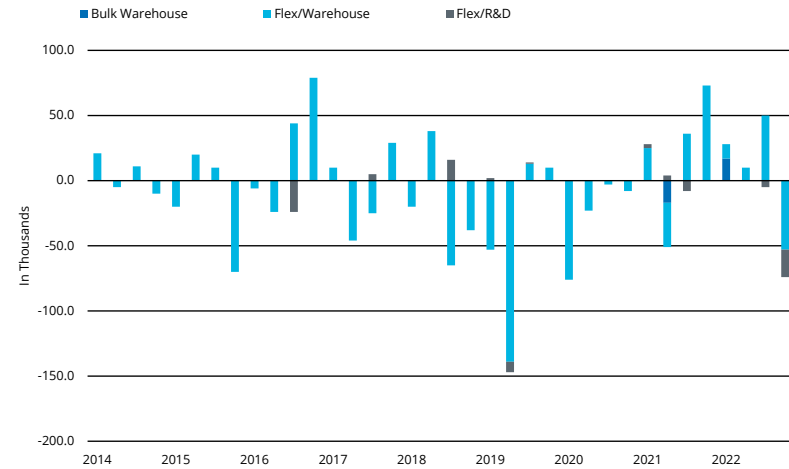
Source: Bureau of Labor Statistics, Transwestern

## NET ABSORPTION AND VACANCY

### Limited Leasing Activity Leads to Lackluster Quarter

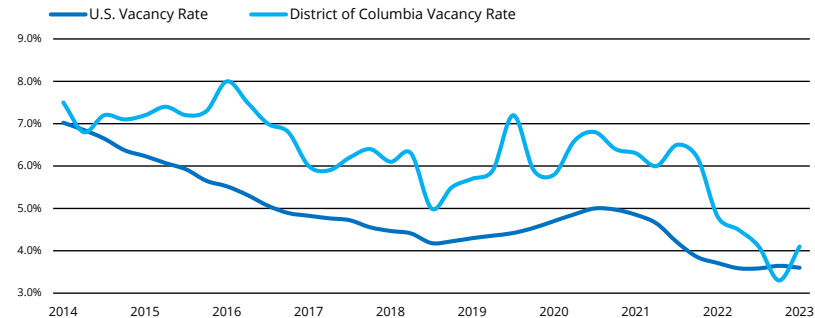
- Net absorption totaled negative 74,000 SF during the quarter, with year-over-year totaling positive 8,000 SF.
- The negative net absorption was due to a lack of leasing, coupled with multiple mid-sized move outs occurring throughout the quarter.
- The direct vacancy rate increased to 4.1% this quarter, up from 3.3% the quarter prior, but down from 4.8% one year ago.
- With the limited amount of available inventory, coupled with future industrial demolitions, we expect the vacancy rate to stabilize with limited net absorption.

## NET ABSORPTION BY PRODUCT TYPE



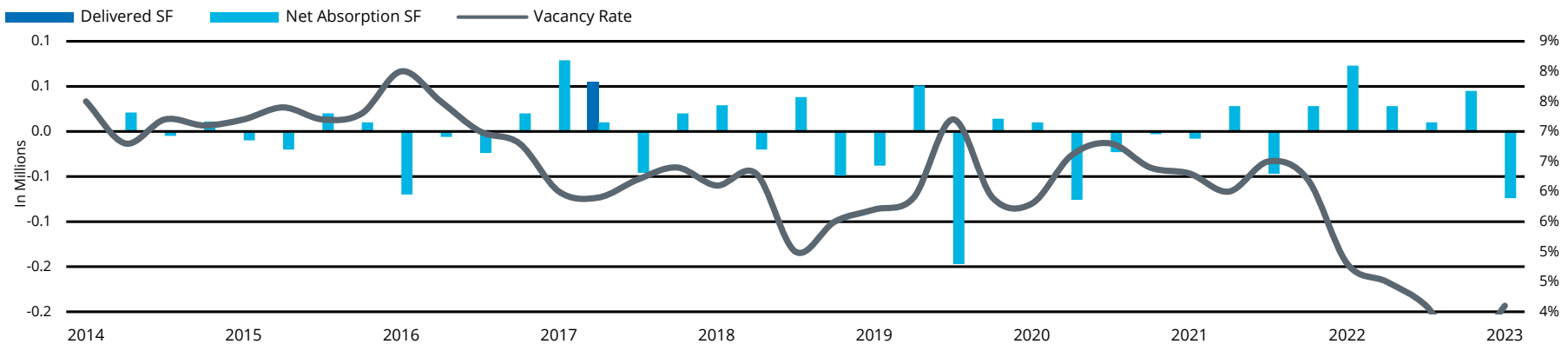
Source: CoStar, Transwestern

## DIRECT VACANCY RATE



Source: CoStar, Transwestern

## DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

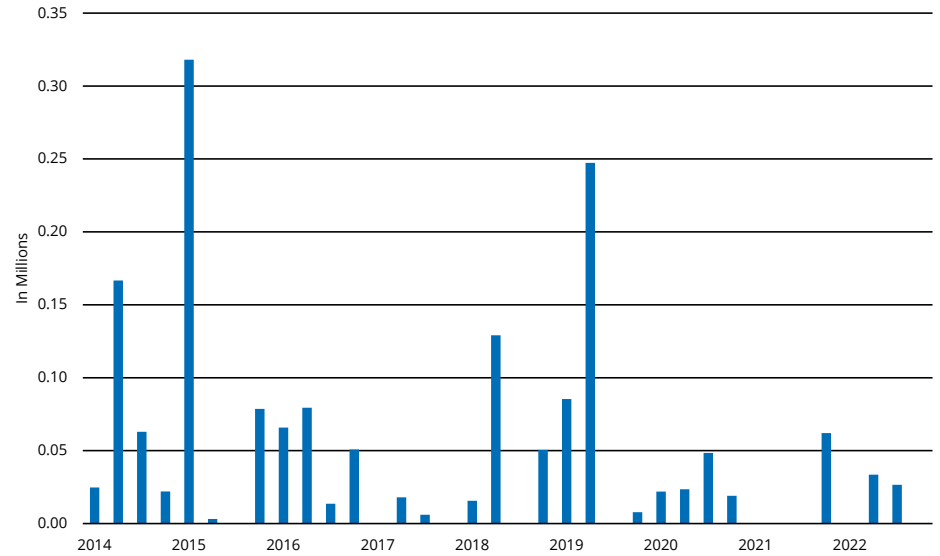


### UNDER CONSTRUCTION AND RENTAL RATES

#### Rental Rates Continue to Rise, as Market Tightens

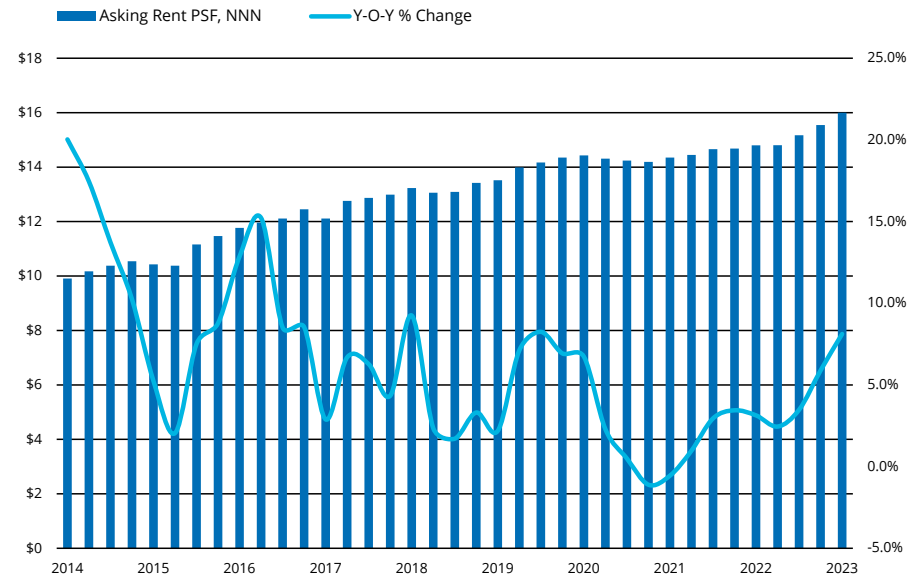
- There is currently one industrial property under construction in the District of Columbia. Jemal Tony, LLC owns the 32,835 SF property at 2266 25th Place, NE which is 100% pre-leased to Gallaudet University.
- Newer suburban product could attract select tenants to relocate into the neighboring submarkets for newer, more efficient product. Successful distribution companies find themselves growing out of their spaces thus needing to find newer, larger product that fits their business needs.
- Besides this one property currently under construction, we expect the pipeline to remain empty for the short run. We expect demolitions of obsolete industrial product to persist and overall industrial inventory to continue to decrease. Over the past 10 years, a total of 1.6 million SF has been demolished and therefore removed from the inventory. In most cases, multifamily has been built in its place, followed by office.
- Asking rents increased 290 basis points during the first quarter of 2023, landing at \$16.00 PSF. Over the past year asking rents rose 8.1%, which is healthy, and above the five-year annual average of 4.1%. As the inventory tightens due in part to demolitions, we expect rents to rise further due to limited quality options and zoning challenges.

### DEMOLISHED



Source: CoStar, Transwestern

### ASKING RENT



Source: CoStar, Transwestern



**MARKET INDICATORS**

All Product 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
<b>BULK WAREHOUSE</b>	203,740	0	0.0%	0.0%	0	0	17,000	N/A
<b>FLEX/INDUSTRIAL</b>	8,749,931	348,493	4.0%	4.5%	32,835	(53,000)	18,000	\$16.00
<b>FLEX/R&amp;D</b>	379,735	34,176	9.0%	9.0%	0	(21,000)	(27,000)	N/A
<b>TOTAL</b>	<b>9,333,406</b>	<b>382,670</b>	<b>4.1%</b>	<b>4.6%</b>	<b>32,835</b>	<b>(74,000)</b>	<b>8,000</b>	<b>\$16.00</b>

Source: CoStar, Transwestern



### RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located in the District of Columbia. 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](https://transwestern.com) and @ Transwestern.

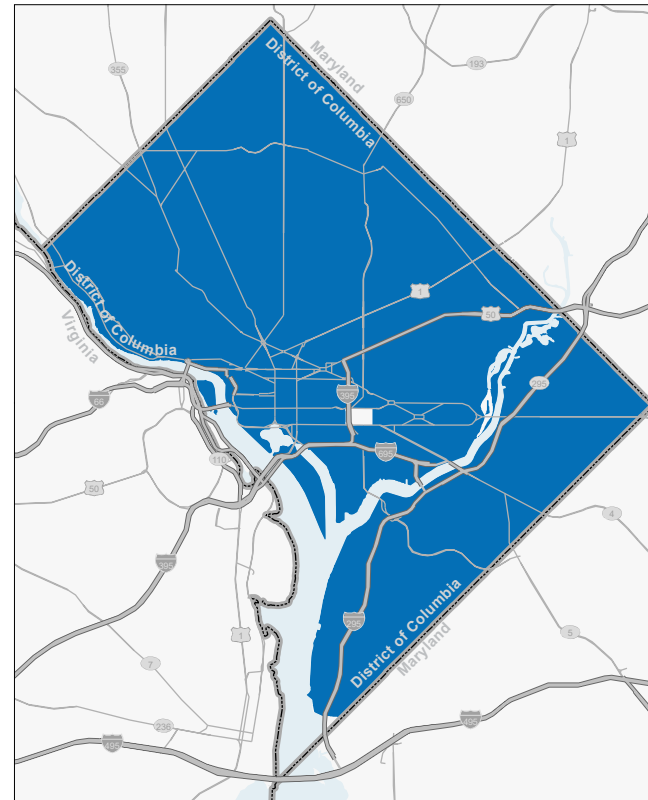
### FOR MORE INFORMATION

**Elizabeth Norton**


Senior Managing Research Director  
Research Services  
[Elizabeth.Norton@transwestern.com](mailto:Elizabeth.Norton@transwestern.com)  
202-775-7026

**Jared Reinson**

Research Analyst | Research Services  
[Jared.Reinson@transwestern.com](mailto:Jared.Reinson@transwestern.com)  
202-775-7030



**District of Columbia Industrial Submarkets**

 District of Columbia