

DISTRICT OF COLUMBIA INDUSTRIAL MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.8	4.5	↑	6.0	↓
NET ABSORPTION (THOUSANDS SF)	4.0	28.0	↓	(7.4)	↔
DIRECT VACANCY RATE	4.4%	4.5%	↓	5.6%	↓
DIRECT VACANT SF (MSF)	0.4	0.4	↓	0.5	↓
UNDER CONSTRUCTION (MSF)	0.0	0.0	↓	0.0	↔
ASKING RENT, NNN (PSF)	\$16.30	\$14.80	↑	\$14.45	↑

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

INDUSTRIAL MARKET CONDITIONS WERE MIXED IN Q2 2023

The District of Columbia industrial market was mixed during the second quarter of 2023. Net absorption totaled 4,000 SF while the direct vacancy rate increased 30 basis points to 4.4%. Despite a pre-leased delivery, multiple mid-sized moveouts softened market conditions. The chronically low vacancy rate pushed asking rents up 190 basis points, ending the quarter at \$16.30 PSF.

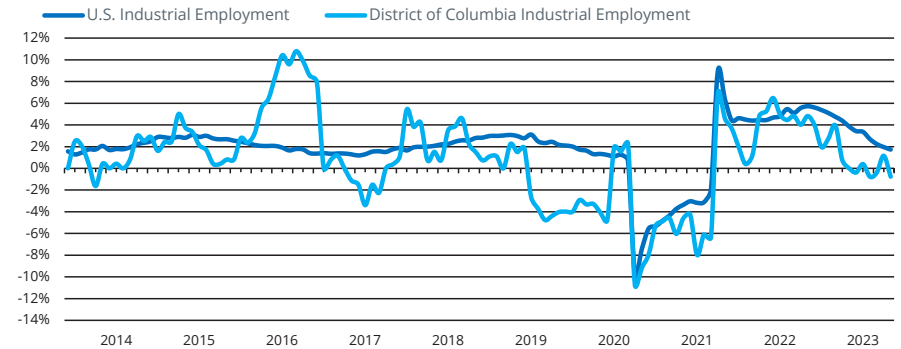
The industrial market remains one of the most favored property types. However, strong demand has created a tight market with rent surges. This in turn has softened overall fundamentals, but not due to lack of tenant demand, rather lack of available and affordable quality space. Heightened demand, coupled 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 Remains Mild

- 13,500 new jobs were added to the District of Columbia economy during the 12-months ending May 2023, which is well-ahead of the pre-pandemic 5-year average of 9,800. This was driven by the leisure and hospitality sector.
- Industrial-using jobs added 200 positions during the 12 months ending May 2023, just below the pre-pandemic 5-year average of 300. Most of this gain occurred within the construction sector, as well as the trade/transportation/utilities sector.
- The unemployment rate for the District of Columbia is currently at 4.9% as of May 2023 and averaged 4.8% for the past three months. The rate is up from 4.3% one year ago but 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 of the limited growth will occur within construction and consumer services.

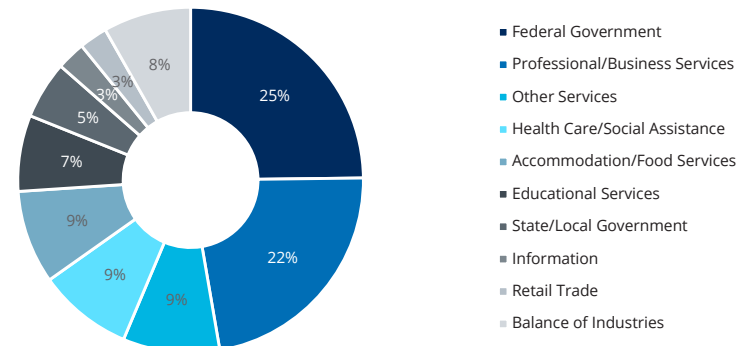
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

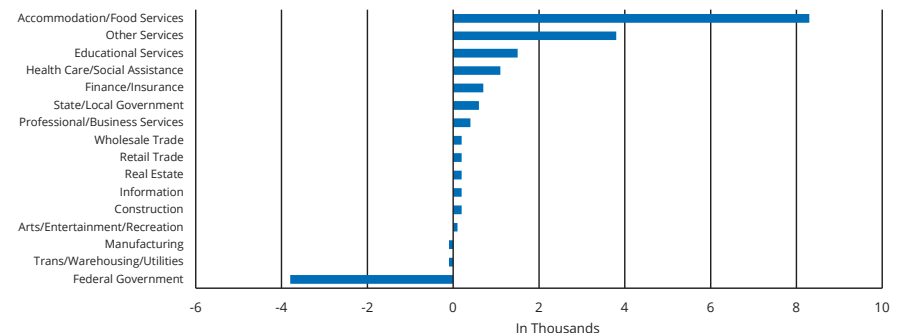
District of Columbia | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

District of Columbia



Source: Bureau of Labor Statistics, Transwestern

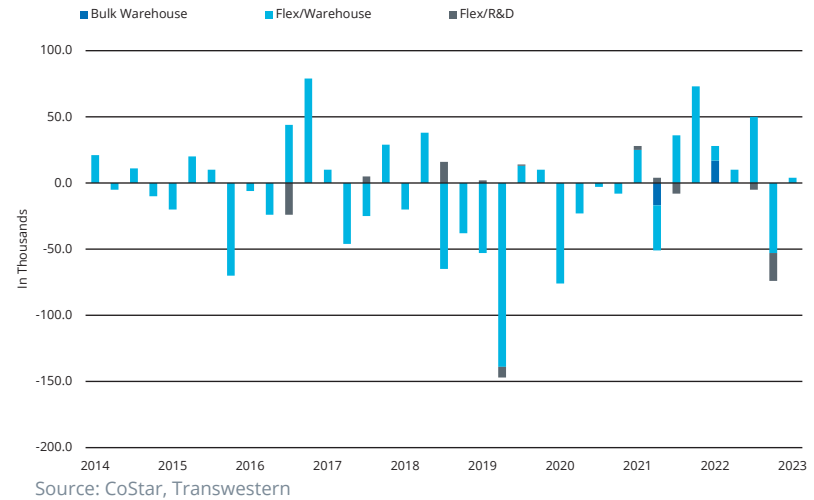


NET ABSORPTION AND VACANCY

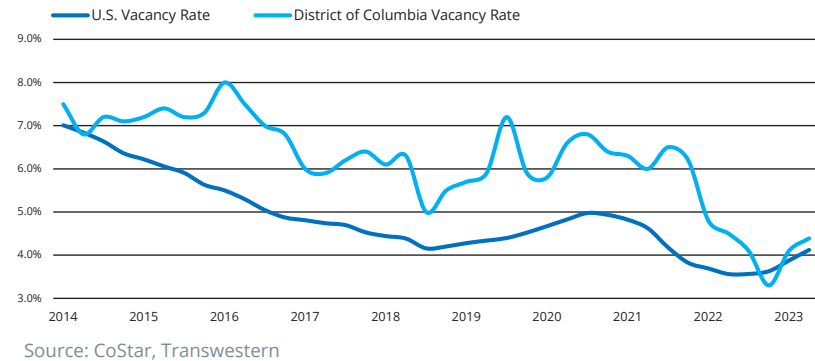
Net Absorption and Vacancy Were Limited in Q2

- Net absorption totaled 4,000 SF during the quarter, with year-over-year totaling negative 16,000 SF.
- The positive net absorption was due mostly to 2266 25th Place NE delivering 32,835 SF which was 100% leased to Gallaudet University, coupled with multiple mid-sized move outs such as JKUB vacating 10,900 SF at 5760-5788 2nd Street, NE.
- The direct vacancy rate increased to 4.4% this quarter, up from 4.1% the quarter prior, but is down from 4.5% 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.

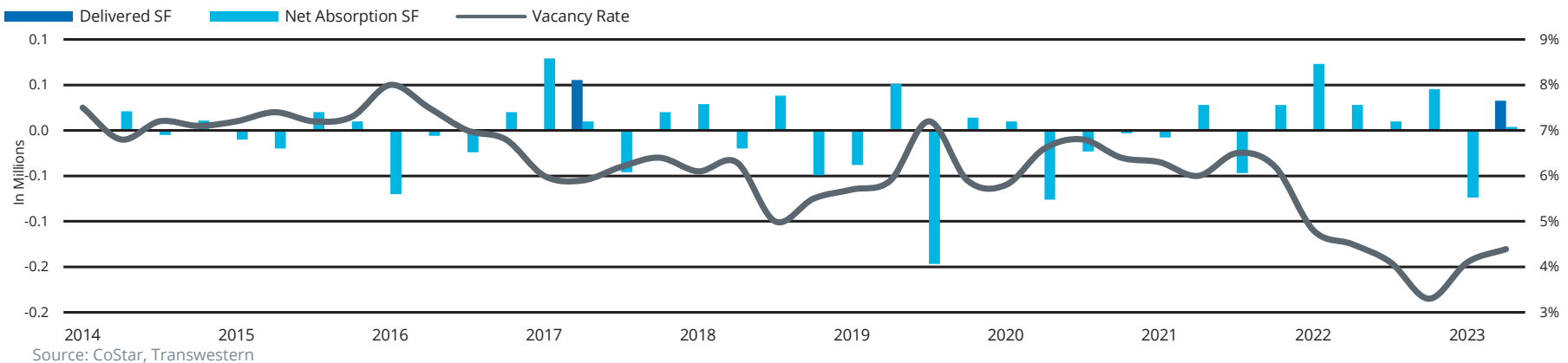
NET ABSORPTION BY PRODUCT TYPE



DIRECT VACANCY RATE



DELIVERY IMPACT ON KEY INDICATORS



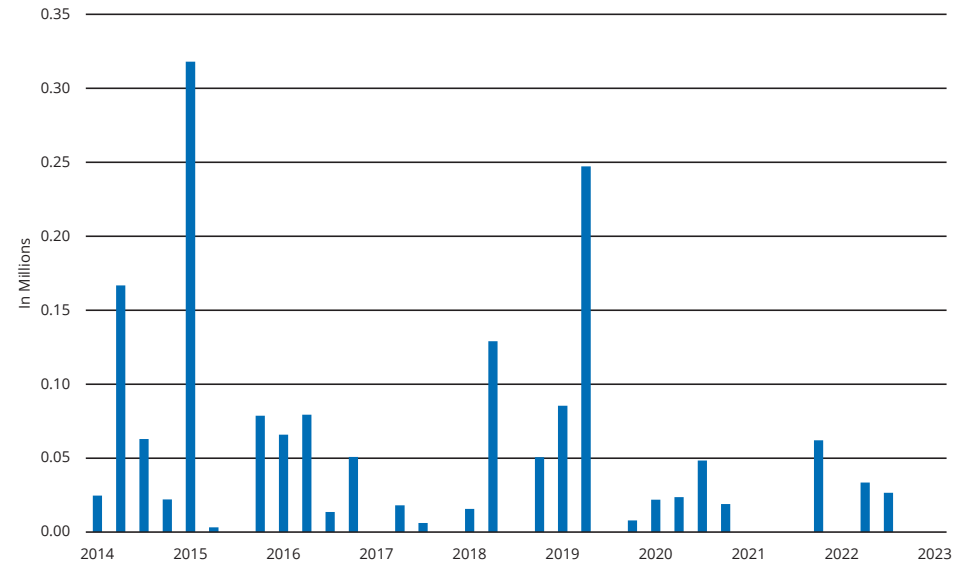


UNDER CONSTRUCTION AND RENTAL RATES

Rental Rates Continue to Rise, as Market Remains Tight

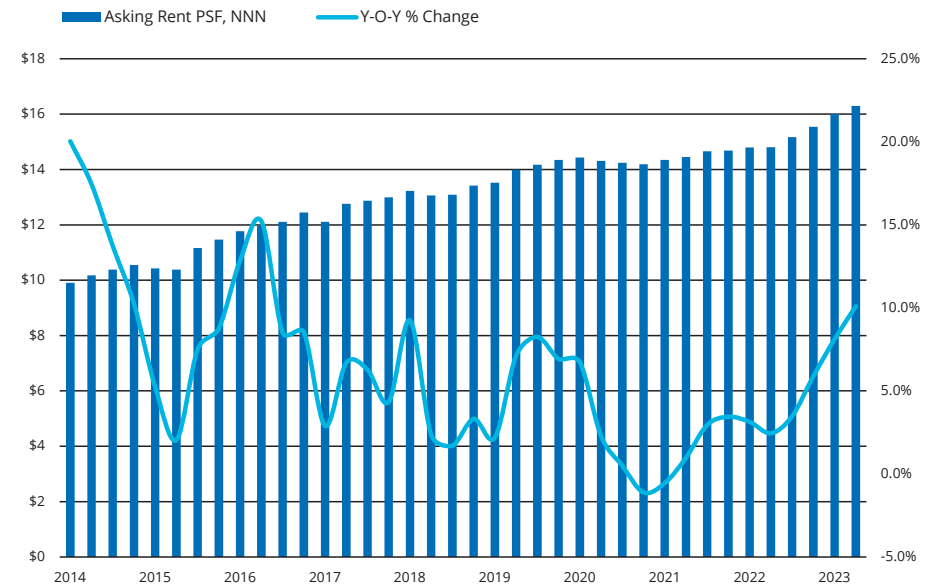
- There are currently no industrial properties under construction in the District of Columbia. We expect the pipeline to remain empty for the short run. We expect demolitions of obsolete industrial product to persist and overall industrial inventory to continue to decrease. Over the past 10 years, a 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.
- 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.
- Asking rents increased 190 basis points during the second quarter of 2023, landing at \$16.30 PSF. Over the past year asking rents rose 10.1%, which is healthy, and above the five-year annual average of 4.1%.
- Rent growth remains strong, despite mellow market conditions, as the vacancy rate is low enough to justify rent increases. 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 | Q2 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	203,740	0	0.0%	0.0%	0	0	0	N/A
FLEX/INDUSTRIAL	8,782,766	377,002	4.3%	4.8%	0	4,000	11,000	\$16.30
FLEX/R&D	379,735	34,176	9.0%	9.0%	0	0	(27,000)	N/A
TOTAL	9,366,241	411,178	4.4%	4.9%	0	4,000	(16,000)	\$16.30

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.

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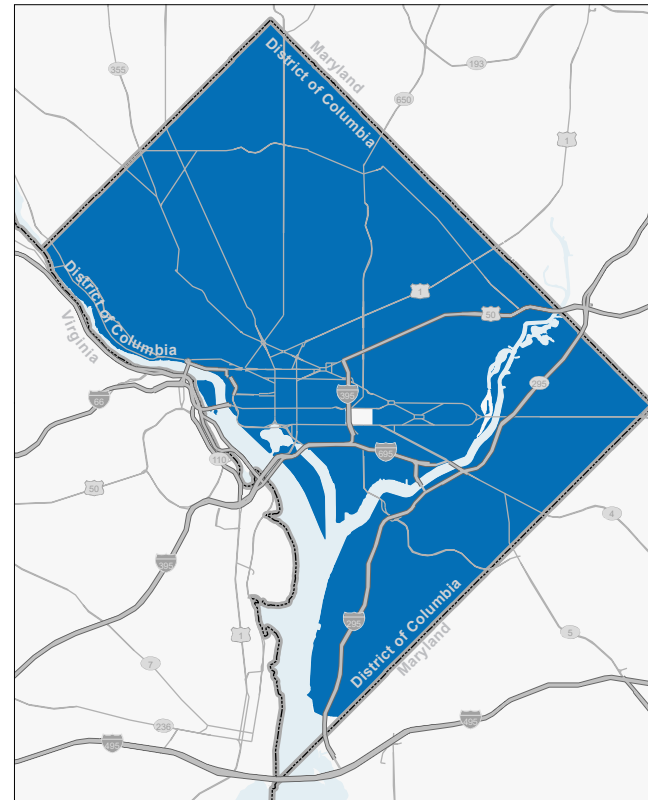
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District of Columbia Industrial Submarkets

■ District of Columbia