

NORTHERN VIRGINIA INDUSTRIAL MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.4	2.4	↔	3.3	↓
NET ABSORPTION (THOUSANDS SF)	697.0	175.0	↑	303.9	↑
DIRECT VACANCY RATE	4.6%	4.9%	↓	6.4%	↓
DIRECT VACANT SF (MSF)	4.2	4.3	↓	5.6	↓
UNDER CONSTRUCTION (MSF)	0.8	1.5	↓	0.9	↑
ASKING RENT, NNN (PSF)	\$13.57	\$11.95	↑	\$10.96	↑
SALES VOLUME (MILLIONS)	\$157.0	\$525.5	↓	\$258.3	↑

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

INDUSTRIAL MARKET STRENGTHENS IN Q2

The Northern Virginia industrial market maintained its strong performance at mid-year 2023, totaling 697,000 SF of positive absorption in the second quarter. The direct vacancy rate steadily decreased 40-basis points to 4.6%. As the market tightened, asking rental rates increased 2.8% for the quarter, averaging \$13.57 PSF, with a 13.5% increase year-over-year.

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 limited demand potential somewhat – not due to lack of tenant demand, rather lack of available and affordable quality space. The construction pipeline has been struggling to keep up in the face of economic headwinds. 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.

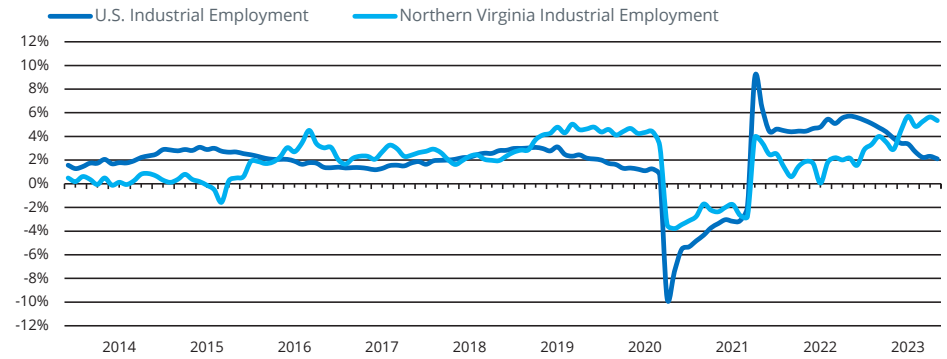


ECONOMY

Industrial-Using Jobs Continue Positive Momentum

- 36,700 new jobs were added to the Northern Virginia economy during the 12-months ending in May 2023. The industry sectors that experienced the largest growth were education/health and state/local government, which added 6,700 and 6,600 net new jobs, respectively.
- Industrial-using jobs had steady growth in the past 12-months ending May 2023, adding 9,000 new jobs. The construction sector performed the strongest by adding 5,700 new jobs to the market.
- The unemployment rate in Northern Virginia is 2.4% in May 2023 and averaged 2.4% over the past three months. Arlington County maintains one of the lowest unemployment rates in the Washington metro area, at 2.0%.
- We expect industrial-using jobs in Northern Virginia to maintain its steady growth throughout 2023 and beyond. Most of the growth will be boosted by the logistics/delivery service and manufacturing industries.

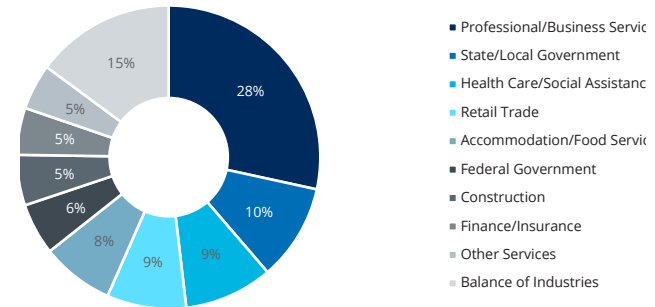
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

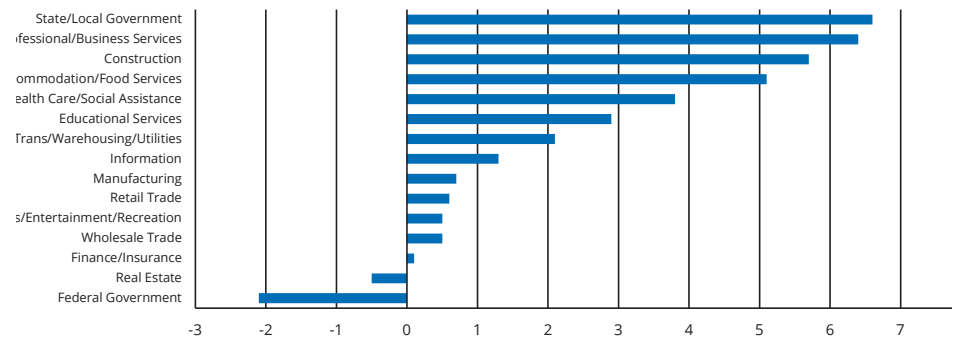
Northern Virginia | May 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

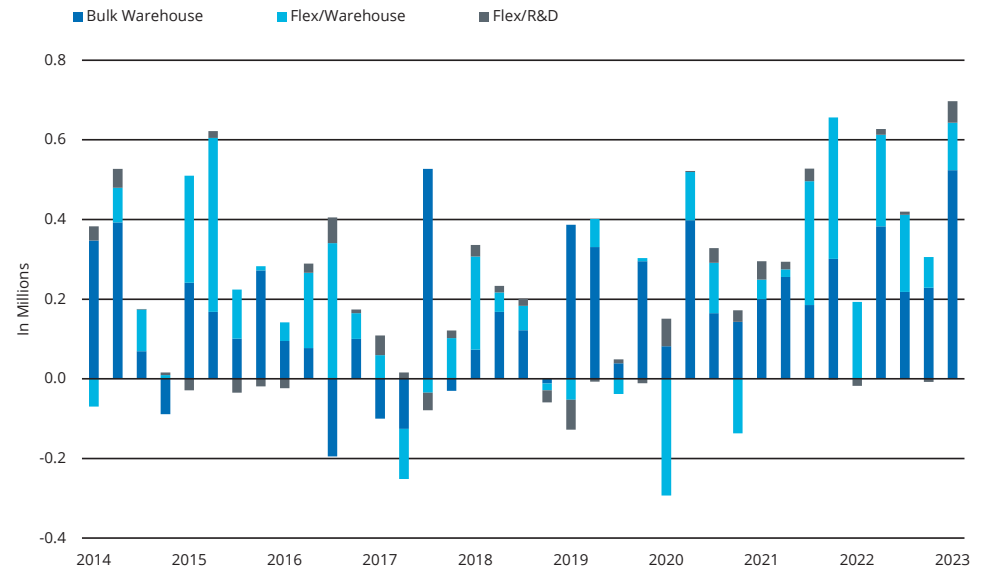


NET ABSORPTION

Industrial Market Continues Upward Trend in Q2

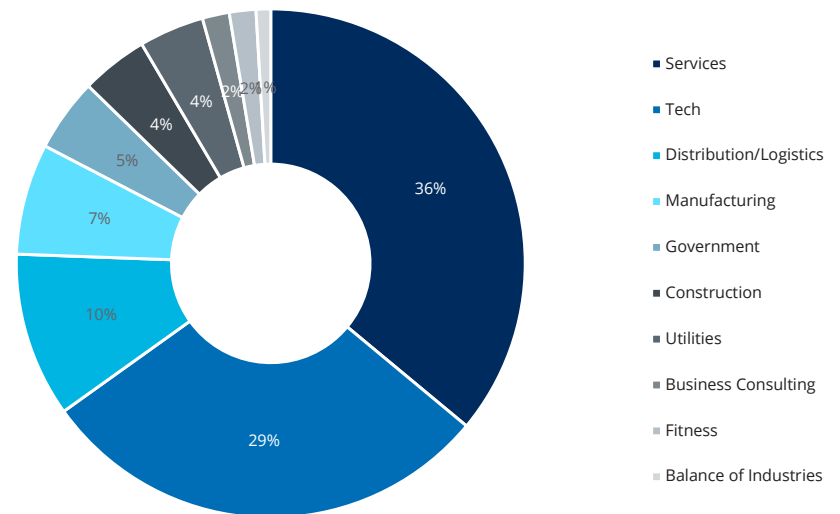
- The Northern Virginia industrial market performed strongly in the second quarter, totaling 697,000 SF in positive absorption. This is the one of the highest marks of positive absorption for the market in recent history.
- Net absorption was aided by PODS Enterprises moving into their 209,193 SF pre-leased delivery at 10225 Golf Academy Drive in Prince William County. Another notable deal was 1-800-Packrat inking 119,952 SF at 8422 Wellington Road in Prince William County. A noteworthy pre-lease, which does not affect net absorption, was Goodwill signing for 84,000 SF at 13600 Dabney Road in Prince William County.
- Due to the pre-leased deliveries and several large lease signings, Prince William County was the largest source of positive absorption, totaling 472,000 SF. Following in second was the Dulles Corridor with 160,000 SF of positive absorption, which included Cassel's Sports Complex inking 58,827 SF at 42714 Trade West Drive.
- We expect net absorption to remain persistently positive throughout 2023 as available space is highly sought in the tight market. However, the positive numbers may temper due to the limited availability.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

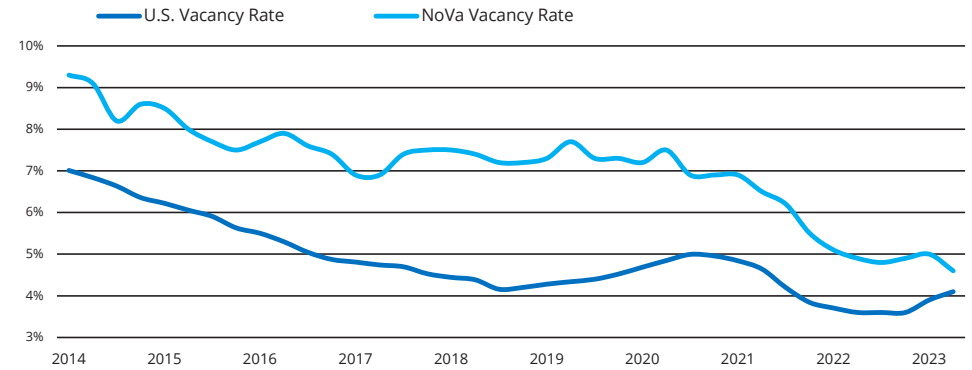


VACANCY

Vacancy Rate Steadily Declines in Q2

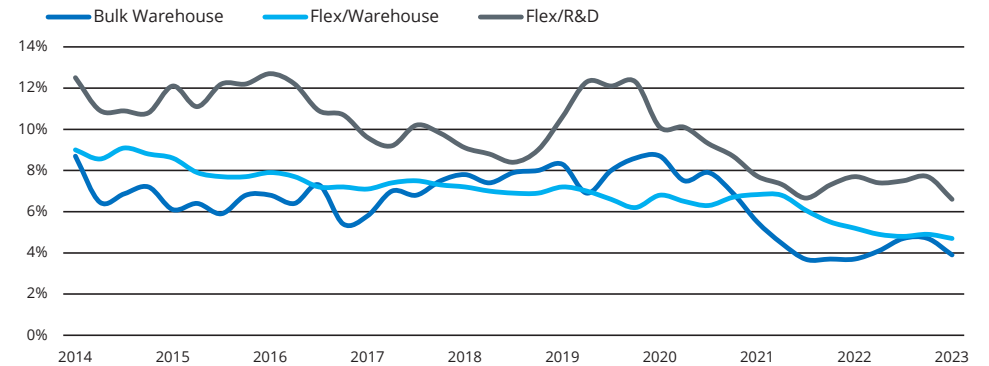
- The industrial market strengthened in the quarter as the vacancy rate decreased 40-basis points to 4.6%. This marks the largest drop in the rate since the first quarter of 2022 which also experienced a decrease of 40-basis points.
- The flex/warehouse vacancy rate edged down 20-basis point to 4.7%. While bulk warehouse vacancy rate decreased by 80-basis points to 3.9%, and flex/R&D declined by 110-basis points to 6.6%.
- The I-95 Corridor continues to have the lowest vacancy rate in the market, edging 20-basis points down to 1.5%. Prince William County experienced the largest decline in vacancy rate, decreasing by 60-basis points.
- 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



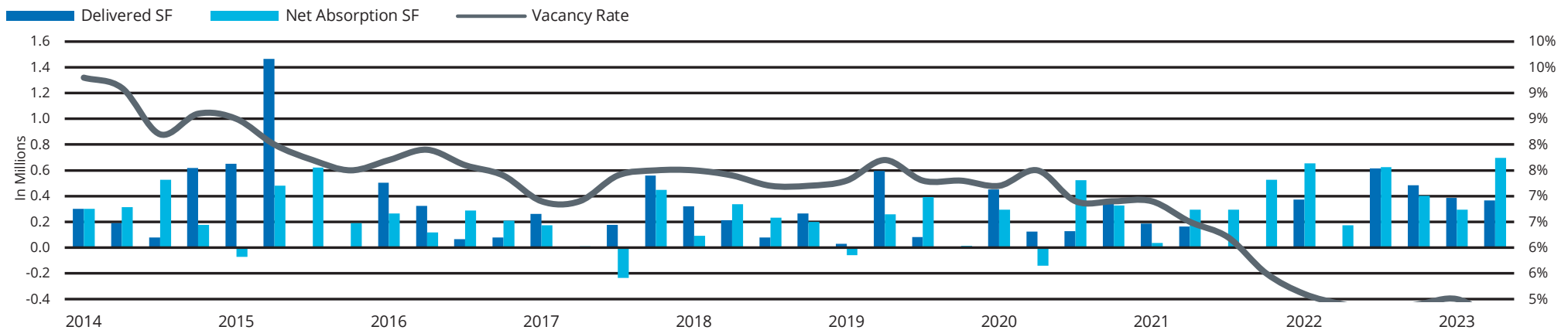
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

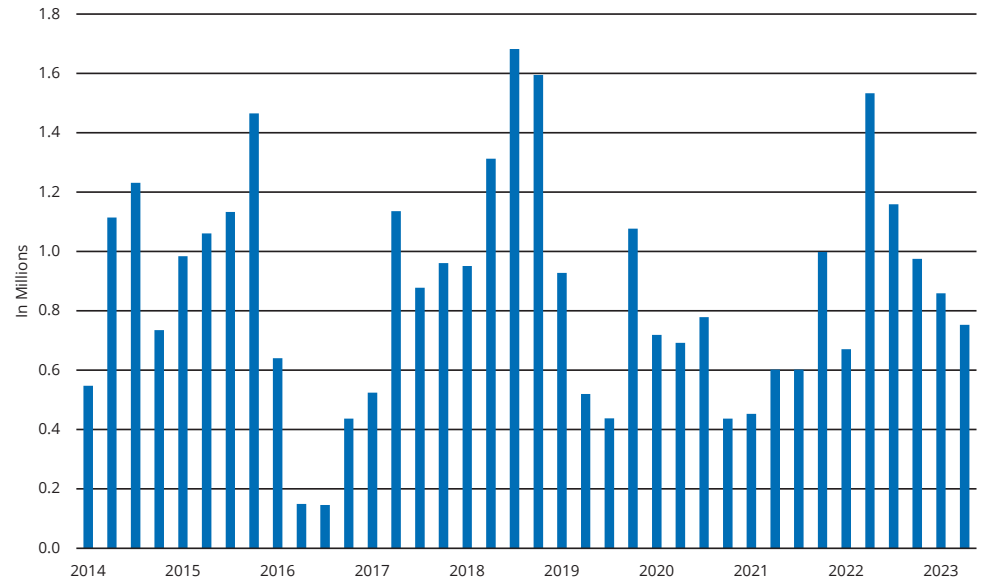


UNDER CONSTRUCTION

Several Projects Deliver with Strong Pre-Leasing Numbers

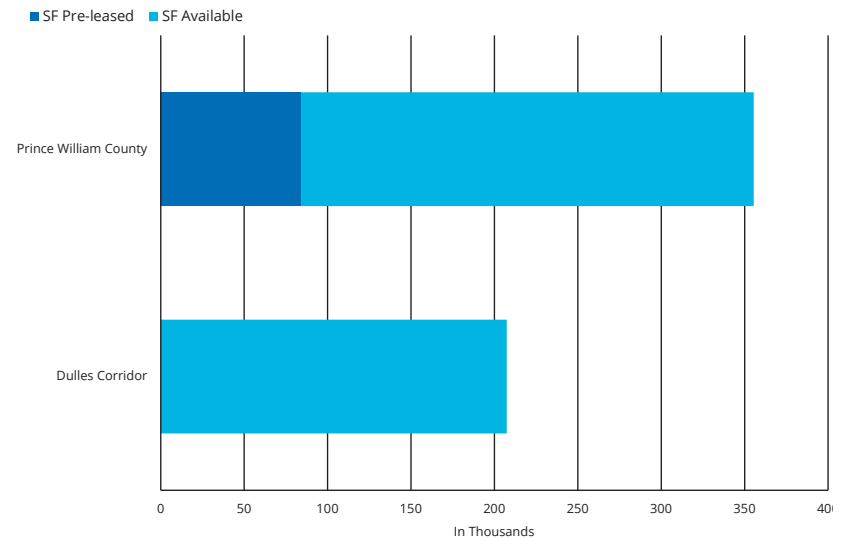
- Three projects delivered in the second quarter, adding 368,046 SF to the inventory at 78% pre-leased. The largest project was 10225 Golf Academy Drive in Prince William County that delivered 209,193 SF with 100% pre-leased to PODS Enterprises.
- The current pipeline has 562,838 SF under construction with 15% pre-leased. The largest project underway is 13600 Dabney Road – I-95 East Distribution Center – which is 74% pre-leased to Goodwill who inked for 84,000 SF in the quarter in Prince William County.
- There were two additions to the pipeline in the quarter, 101 & 105 Oaklawn Drive, in the Dulles Corridor in which the buildings are anticipated to deliver a total of 71,348 SF when completed in late 2023.
- The construction pipeline currently holds six projects that are projected to be delivered throughout 2023, and two projects facing 2024 delivery dates. Of these eight total projects, 456,838 SF is anticipated to be delivered by the end of 2023 and the remaining 106,000 SF is to be delivered in the first half of 2024.
- We expect construction levels to lessen throughout 2023 as economic factors such as inflation and elevated interest rates will give select developers pause before breaking ground.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

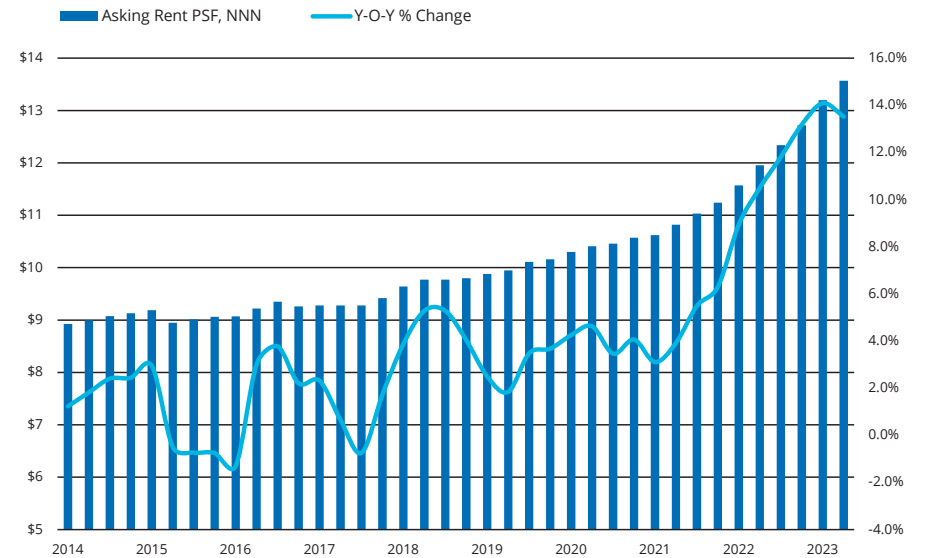


RENTAL RATES

Asking Rent Maintains Strong Growth Throughout First Half of Year

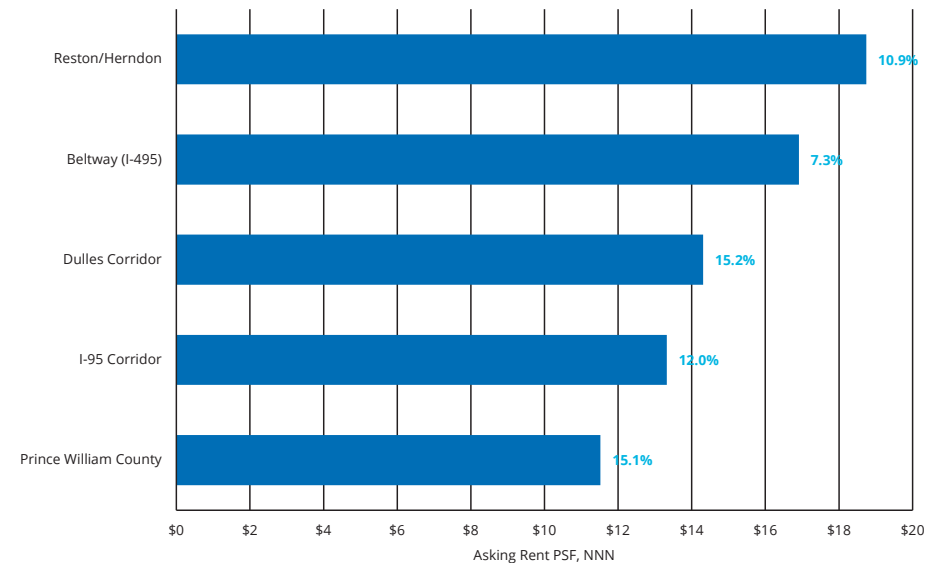
- Asking rents rose 280-basis points to \$13.57 PSF in the quarter and 13.5% year-over-year. Bulk warehouse experienced the largest jump in rental rates year-over-year, rising 14.8% to \$12.60 PSF. Flex/warehouse had the largest increase in quarterly rental rates, increasing 300-basis points to \$13.74 PSF.
- Dulles Corridor had the largest quarterly rental rate increase, rising 340-basis points. Dulles Corridor and Prince William County tied for the largest year-over-year increase in rental rate, rising 15.1% to \$14.31 PSF and \$11.52 PSF, respectively.
- 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 \$16.91 PSF.
- We expect rent growth to continue during the second half of 2023 as demand for industrial space persists. This growth may be supported by high-quality vacant construction projects entering the market with higher starting asking rates.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

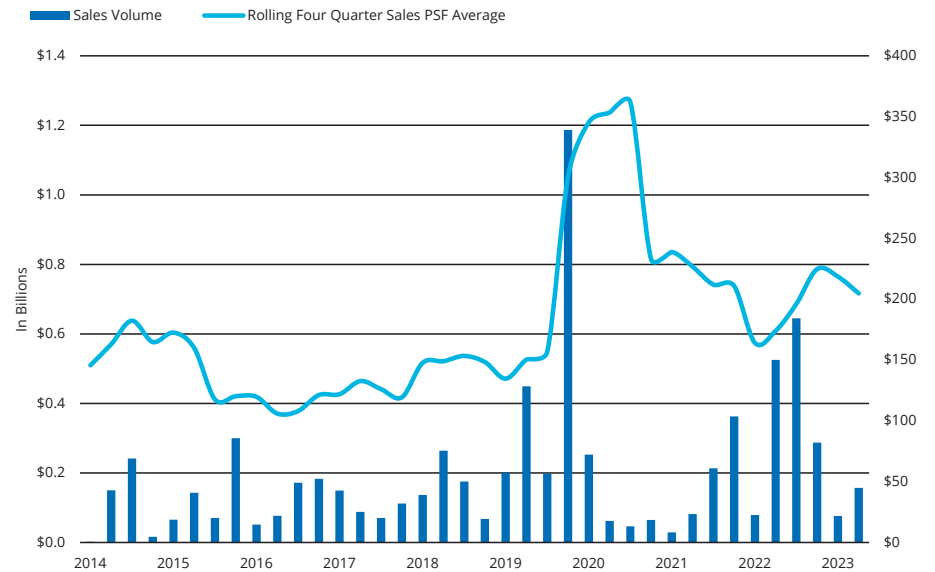


SALES

Large Portfolio Sale Buoy Industrial Investment Sales Market

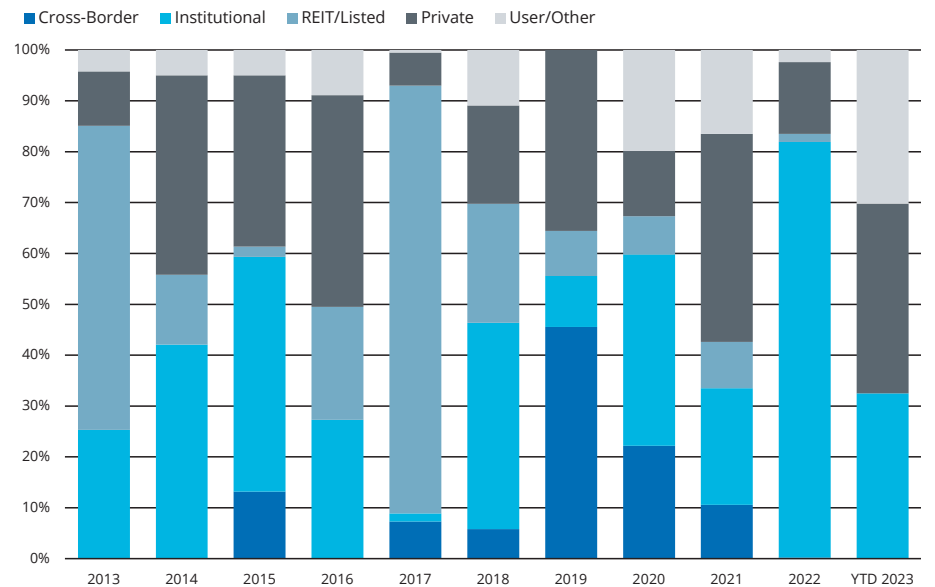
- There were 19 transactions in the second quarter of 2023, totaling \$157 million or \$159 PSF. This compares to six transactions totaling \$76.1 million or \$150 PSF in the first quarter of the year.
- The most notable transaction was Brookfield Corporation purchasing 16 industrial properties across the Northern Virginia market, totaling 804,498 SF for \$123.8 million, or \$154 PSF. The largest single transaction was Minkhoff Development purchasing 7001 Loisdale Road in the I-95 Corridor for \$21 million, or \$185 PSF.
- Transaction volume will likely remain limited in the second half of 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
1-800-PACKRAT	8422 Wellington Rd	Prince William County	New Lease	119,952
GOODWILL 	13600 Dabney Rd	Prince William County	New Lease	84,000
ENSCO, INC.	5400 Port Royal Rd	I-95 Corridor	New Lease	75,467
CASSEL'S SPORTS COMPLEX	42714 Trade West Dr	Dulles Corridor	New Lease	58,827
EZSVS USA, INC.	44180 Mercure Cir	Dulles Corridor	New Lease	51,200
FERGUSON	6621 Electronic Dr	I-95 Corridor	New Lease	39,052

 = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
503 CARLISLE DR	Herndon/Reston	Jun-23	\$4,150,000	27,000	\$154	United Investment Group	International Realty Associates
4151 LAFAYETTE CENTER DR	Dulles Corridor	May-23	\$12,484,991	83,045	\$150	Brookfield Corporation	Link Logistics Real Estate
22960 SHAW RD	Dulles Corridor	May-23	\$11,343,506	70,652	\$161	Brookfield Corporation	Link Logistics Real Estate
8320 ALBAN RD	I-95 Corridor	May-23	\$10,003,138	71,004	\$141	Brookfield Corporation	Link Logistics Real Estate
7001 LOISDALE RD	I-95 Corridor	Apr-23	\$21,000,000	113,224	\$185	Minkoff Development Corp	Blair, Inc.
3170 DRAPER DR	Dulles Corridor	Apr-23	\$8,000,000	40,000	\$200	John Ercan Keskin	Collins William

 = Transwestern deal
 Source: CoStar, CompStak, Transwestern.

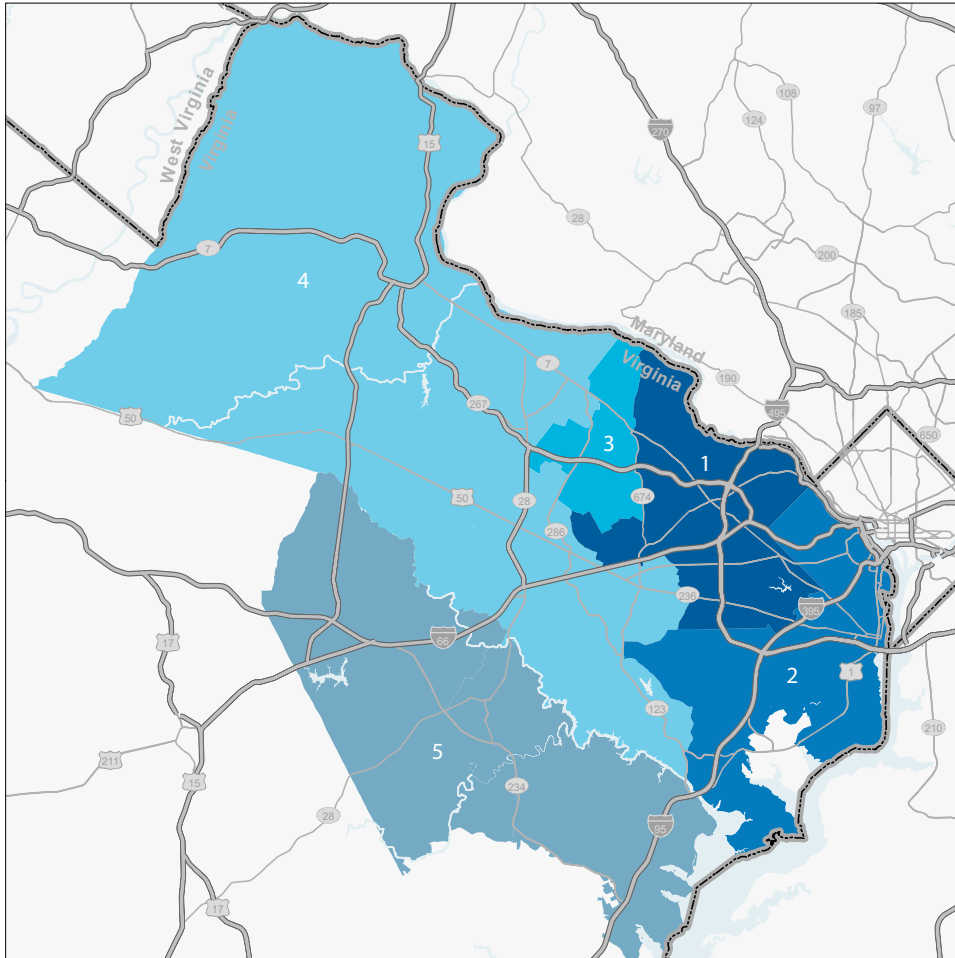


MARKET INDICATORS

All Property 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	304,912	3,049	1.0%	1.0%	0	0	0	N/A
FLEX/WAREHOUSE	3,180,356	100,378	3.2%	3.2%	0	6,000	0	\$16.99
FLEX/R&D	366,459	71,826	19.6%	19.6%	0	0	(2,000)	\$16.20
BELTWAY (I-495)	3,851,727	175,254	4.6%	4.6%	0	6,000	(2,000)	\$16.91
BULK WAREHOUSE	4,938,241	34,568	0.7%	0.9%	0	40,000	118,000	\$12.91
FLEX/WAREHOUSE	18,769,458	197,447	1.1%	1.1%	0	7,000	(55,000)	\$13.10
FLEX/R&D	1,210,412	94,412	7.8%	7.8%	0	11,000	(4,000)	\$18.40
I-95 CORRIDOR	24,918,111	326,427	1.3%	1.4%	0	57,000	60,000	\$13.32
BULK WAREHOUSE	70,982	0	0.0%	0.0%	0	0	0	N/A
FLEX/WAREHOUSE	1,568,332	109,705	7.0%	7.0%	0	7,000	20,000	\$19.82
FLEX/R&D	555,023	48,287	8.7%	8.7%	0	(5,000)	(5,000)	\$15.69
RESTON/HERNDON	2,194,337	157,992	7.2%	7.2%	0	2,000	15,000	\$18.74
BULK WAREHOUSE	13,051,625	767,436	5.9%	5.9%	70,400	61,000	440,000	\$12.19
FLEX/WAREHOUSE	22,697,909	1,488,889	6.6%	6.8%	136,948	73,000	525,000	\$15.32
FLEX/R&D	2,263,869	81,499	3.6%	3.8%	0	25,000	41,000	\$16.33
DULLES CORRIDOR	38,013,403	2,337,824	6.2%	6.3%	207,348	160,000	1,006,000	\$14.31
BULK WAREHOUSE	7,183,560	201,140	2.8%	2.8%	355,490	423,000	796,000	\$13.13
FLEX/WAREHOUSE	14,107,996	950,057	6.7%	6.9%	0	26,000	129,000	\$10.64
FLEX/R&D	363,066	18,153	5.0%	5.0%	0	23,000	20,000	\$14.00
PRINCE WILLIAM COUNTY	21,654,622	1,169,350	5.4%	5.5%	355,490	472,000	945,000	\$11.52
BULK WAREHOUSE	25,549,320	1,006,192	3.9%	4.0%	425,890	524,000	1,354,000	\$12.60
FLEX/WAREHOUSE	60,324,051	2,846,477	4.7%	4.9%	136,948	119,000	619,000	\$13.74
FLEX/R&D	4,758,829	314,178	6.6%	6.7%	0	54,000	50,000	\$16.59
TOTAL	90,632,200	4,166,847	4.6%	4.7%	562,838	697,000	2,024,000	\$13.57

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 flex and industrial 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

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