

# SUBURBAN MARYLAND INDUSTRIAL MARKET

Q2 2023

## TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.2	4.6	↓	5.2	↓
NET ABSORPTION (THOUSANDS SF)	198.0	512.0	↓	280.3	↑
DIRECT VACANCY RATE	6.4%	6.2%	↑	7.2%	↓
DIRECT VACANT SF (MSF)	6.5	6.1	↑	7.0	↓
UNDER CONSTRUCTION (MSF)	3.6	3.5	↑	1.9	↑
ASKING RENT, NNN (PSF)	\$11.74	\$10.47	↑	\$9.46	↑
SALES VOLUME (MILLIONS)	\$41.6	\$132.8	↓	\$125.3	↑

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

## INDUSTRIAL MARKET CONDITIONS WERE MIXED IN Q2 2023

The Suburban Maryland industrial market was mixed during the second quarter of 2023 with 198,000 SF of positive net absorption driven mostly by mid-sized lease signings. However, the direct vacancy rate increased 30 basis points to 6.4% due to multiple construction projects delivering vacant. Asking rents rose 2.8% over the past three months to \$11.74 PSF and are up 8.4% over the year, as heightened demand and a low vacancy rate continues to increase prices.

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.

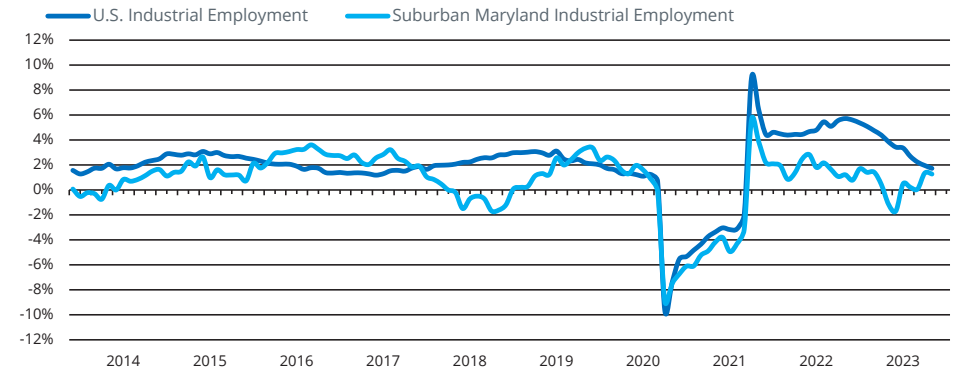


**ECONOMY**

**Industrial Job Growth Remains Steady**

- 17,300 new jobs were added to the Suburban Maryland economy during the 12-months ending May 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 1,800 new positions during the 12 months ending May 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 sector but was offset slightly job cuts in the trade/ transportation/utilities Sector.
- The unemployment rate in Suburban Maryland is currently at 2.3% in May 2023 which is above the average of 2.2% 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 remain steady over the next few years. Growth should be concentrated within local delivery/distribution services and pharmaceutical manufacturing.

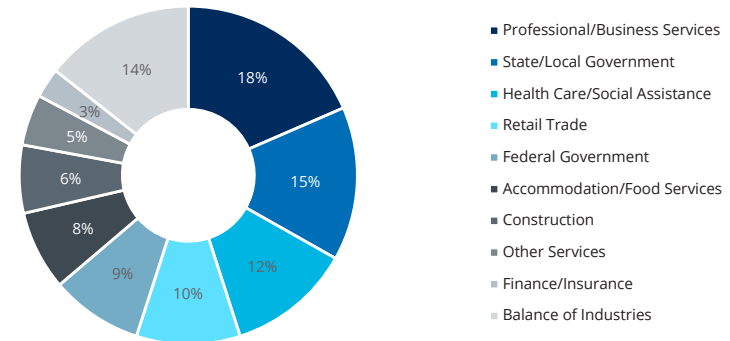
**Y-O-Y CHANGE IN INDUSTRIAL JOBS**



Source: Bureau of Labor Statistics, Transwestern

**SHARE OF EMPLOYEES BY INDUSTRY**

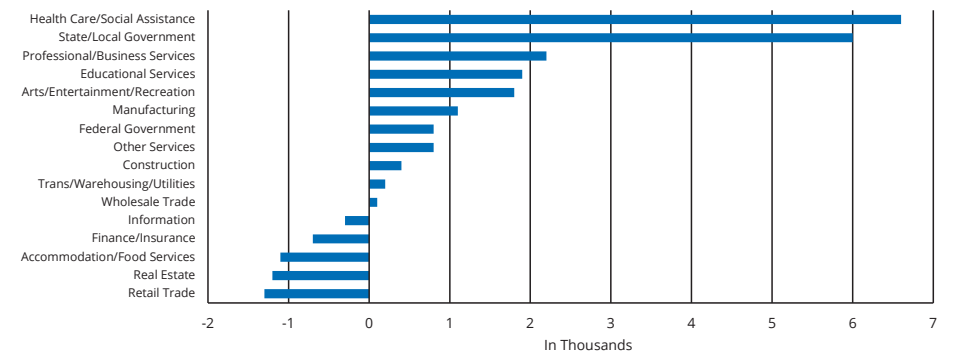
Suburban Maryland | May 2023



Source: Bureau of Labor Statistics, Transwestern

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

Suburban Maryland



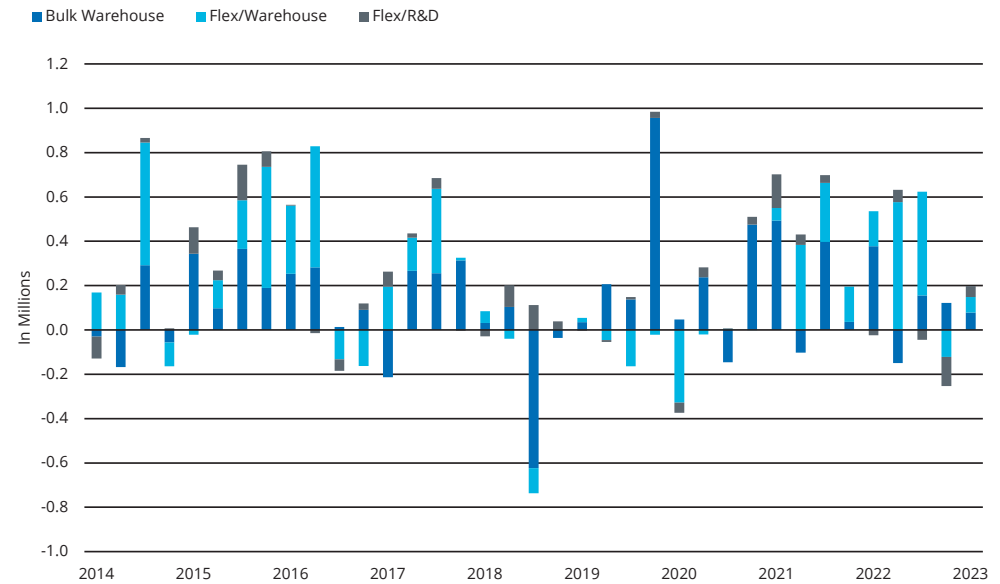
Source: Bureau of Labor Statistics, Transwestern

**NET ABSORPTION**

**Frederick County Boosts Overall Net Absorption in Q2**

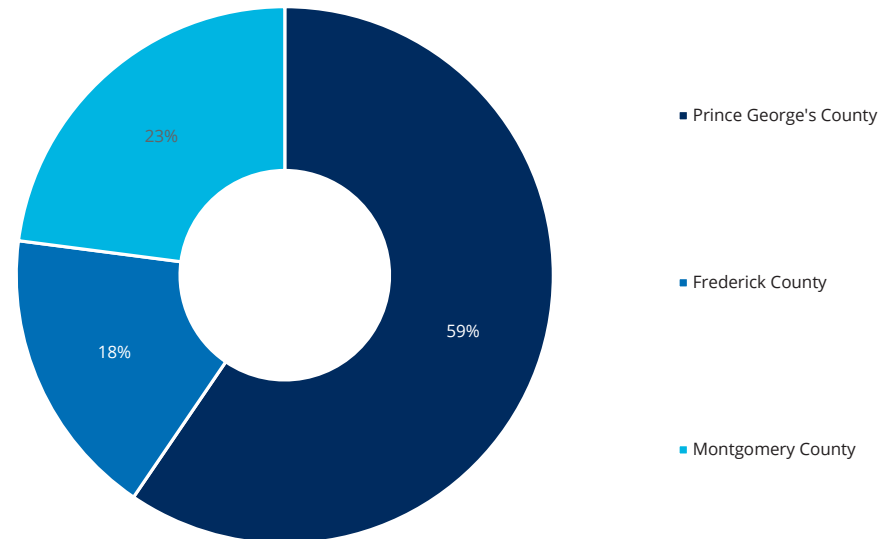
- Net absorption totaled positive 198,000 SF during the second quarter of 2023, after totaling negative 131,000 SF during the first quarter of 2023.
- Frederick County continues to have the strongest net absorption for the second quarter in a row with 195,000 SF and 623,000 SF year-over-year.
- One of the largest deals of the quarter was Walmart signing a 104,000 SF lease at 4910 Executive Court South in Frederick County. Another large lease was Montgomery County Public Schools signing for 49,956 SF at 301 N Stonestreet Avenue in Montgomery County. This lease signing gives the Montgomery County Public Schools the ability to consolidate their overall material management operations to one specific location. Lastly in Prince George’s County, Trimark signed for 57,444 SF at 1811 Cabin Branch Drive.
- Countering this positive net absorption slightly were a couple of mid-sized move outs that occurred over the quarter. Fugro vacated 23,000 SF at 7320 Executive Way in Frederick County while Zip Mailing Services vacated 48,511 SF at 6304 Sheriff Road in Montgomery County.
- We expect net absorption to remain healthy over the next several quarters but likely decelerate given the limited inventory.

**NET ABSORPTION BY PRODUCT TYPE**



Source: CoStar, Transwestern

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



Source: CoStar, Transwestern

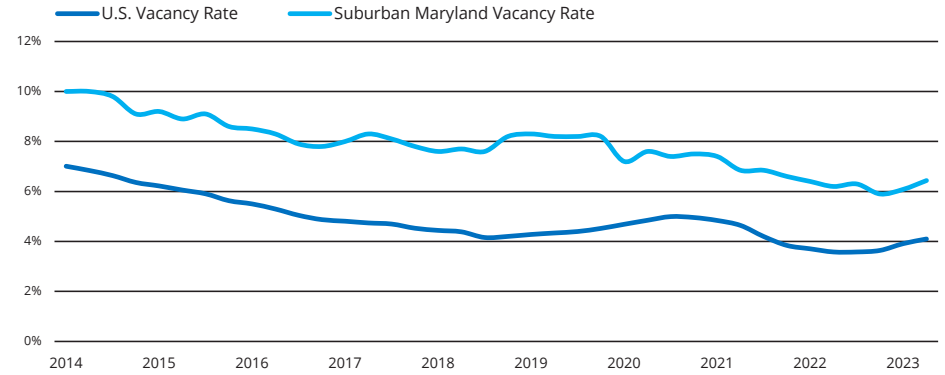


### VACANCY

#### Vacancy Rate Inches Upward in Q2

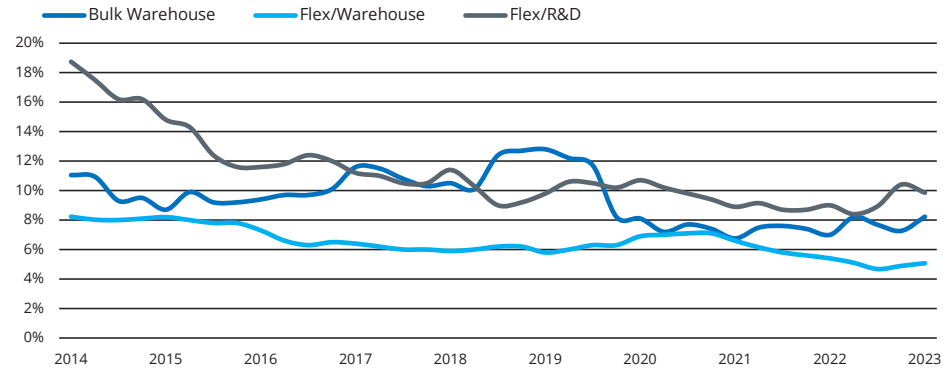
- The direct vacancy rate increased 30 basis points to 6.4% at June 2023 and is up from 6.2% one year ago. The rate is below pre-pandemic levels and is also below the five-year average of 7.7%.
- Flex/warehouse continues to have the lowest rate at 5.1% during the quarter, up from 4.9% the quarter prior. Bulk warehouse increased to 8.2%, from 7.3% the quarter prior.
- Montgomery County continues to hold the highest vacancy rate at 8.6%, which increased 150 basis points due mostly to two projects at Progress Way delivering a total of 395,000 SF of vacant space. Frederick County followed at 6.0% which is a 20-basis point decrease from last quarter, and Prince George’s County remained the same at 5.7%.
- The vacancy rate should steadily decline during the balance of 2023. However, the decline will likely not be as steep as previous quarters.

### DIRECT VACANCY RATE



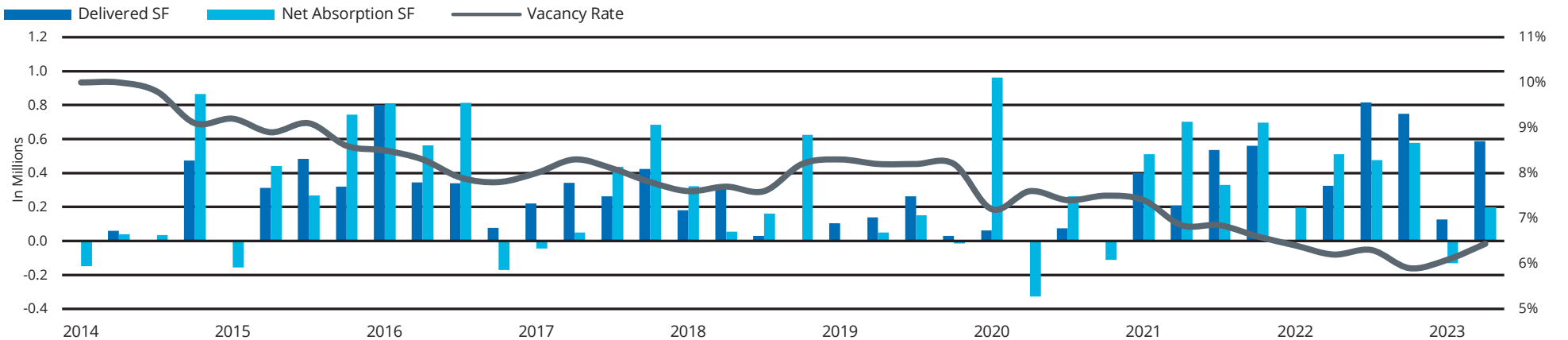
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

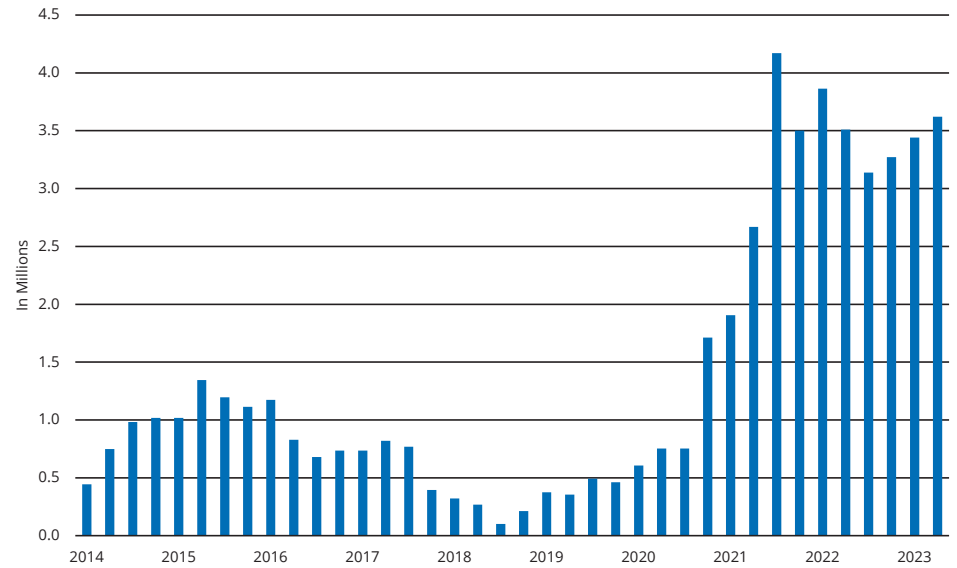


### UNDER CONSTRUCTION

#### Four Projects Deliver in Q2 2023

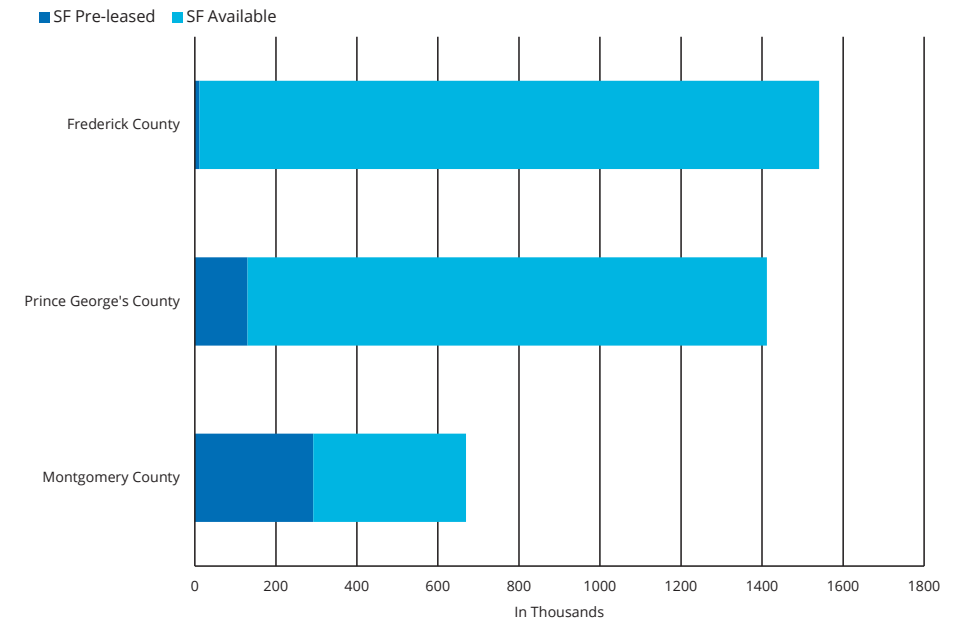
- Four projects delivered during the second quarter of 2023, totaling 588,002 SF. These projects came online at 7% pre-leased.
- There is 3.6 million SF under construction at 12% pre-leased as of June 2023, up from 3.4 million SF during the first quarter of 2023, and up slightly from 3.5 million SF one year ago. Frederick County continues to have the most construction volume underway with 1.5 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 2025. 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, increased construction costs, zoning issues, as well as lengthened timelines might deter select developers.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

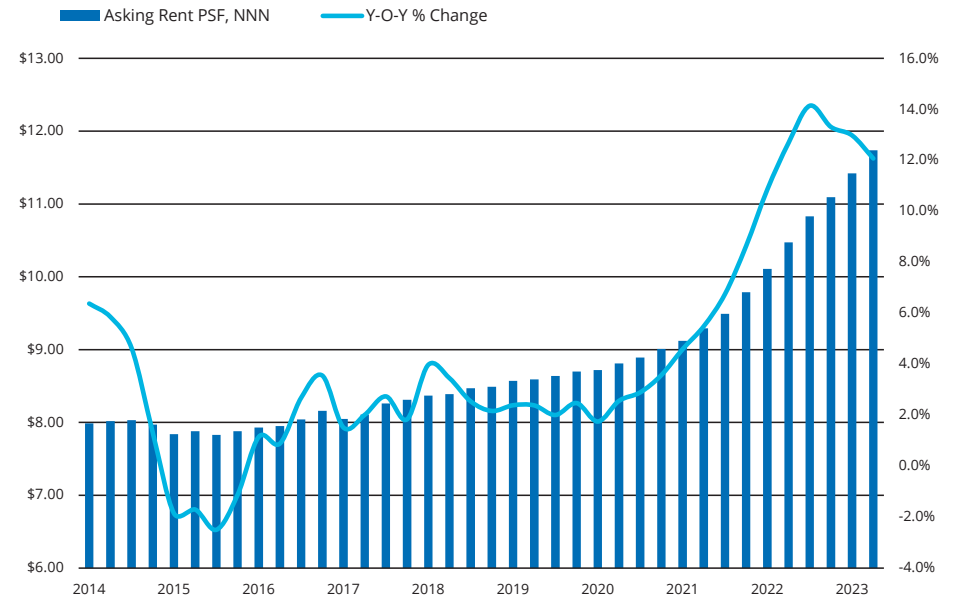


### RENTAL RATES

#### Rent Rates Continue to Rise in Q2

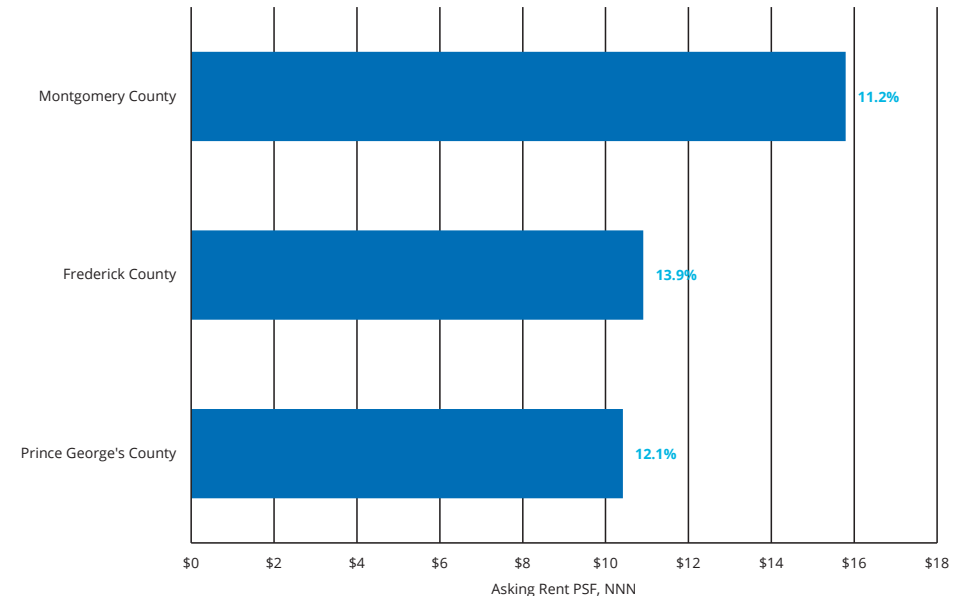
- Industrial asking rents increased 2.8% during the second quarter of 2023, landing at \$11.74 PSF. Rent growth remains strong at 8.4% year-over-year.
- Rents declined for bulk warehouse during the quarter by 1.3%, settling at \$9.15 PSF. Flex/warehouse rose 3.4% to \$12.36 PSF and flex/R&D increased 8.0% to \$16.15 PSF.
- Rents continue to increase across all submarkets, with Frederick County achieving the highest increase, with asking rates finishing the quarter at \$10.91 PSF, up 9.6% year over year.
- We expect rent growth to continue during the balance of 2023 and into 2024 as the vacancy rate is low enough to justify rent gains. Growth will remain strongest in the 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

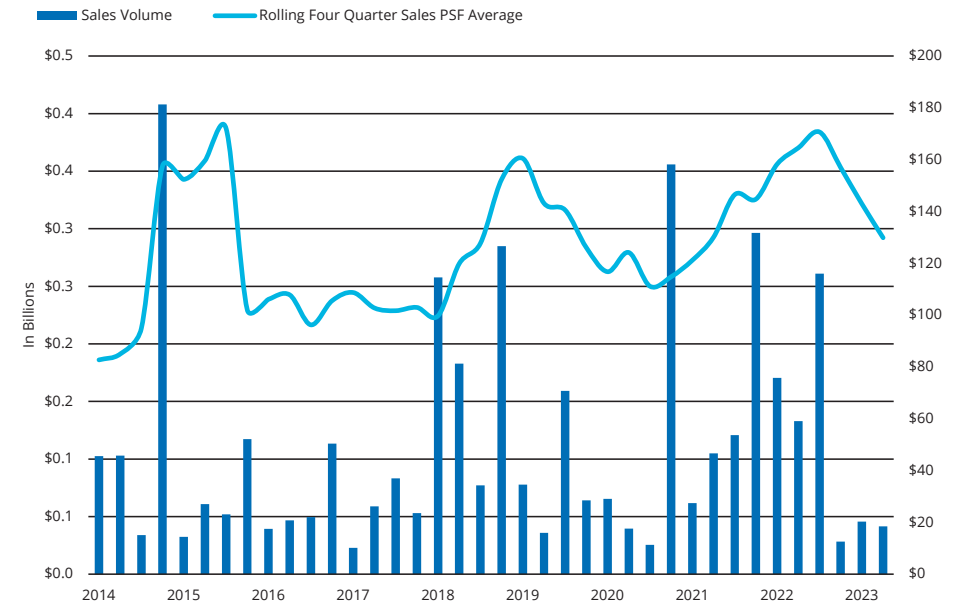


### SALES

#### Sales Volume Remains Slow in Q2

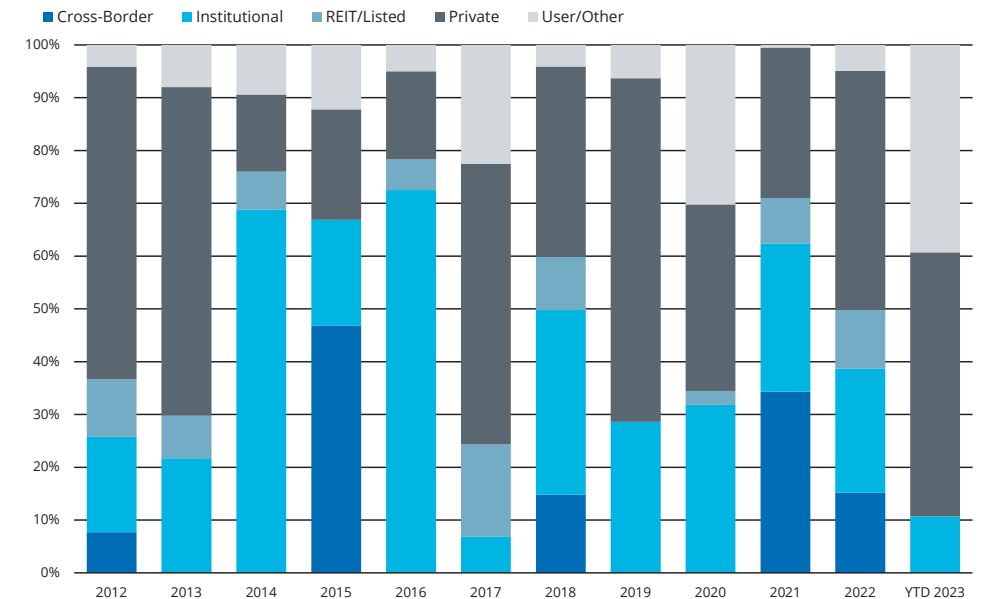
- Investment sales totaled \$41.6 million during the second quarter of 2023 on four transactions, three out of the four of which were flex/warehouse. This compares to eleven transactions at \$45.6 million during the first quarter of 2023.
- This is the second lowest quarterly sales volume since the second quarter of 2020, as shifts in economic conditions have impacted the rate in which they are done.
- The most notable deal occurred at 8700 Ritchie Drive in Prince George’s County. LBA Realty purchased this 103,000 SF bulk warehouse asset from Principal Real Estate Investors for \$20.4 million or \$198 PSF.
- We expect investment sales volume to remain steady through 2023 but continue to slow as investors put the pencils down until the economic climate improves – paying close attention to the Fed’s actions in regard to interest rates moving forward.

### 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
<b>BUCK DISTRIBUTING</b>	15827 Commerce Ct	Prince George's County	Sale Lease Back	143,000
<b>WALMART</b>	4910 Executive Ct South	Frederick County	New Lease	104,000
<b>FEDERAL BUREAU OF INVESTIGATION</b>	2350-2400 Schuster Dr	Prince George's County	Renewal	82,000
<b>AMAZON.COM INC</b>	861 E Gude Dr	Montgomery County	Renewal	65,000
<b>GLYCOMIMETICS, INC.</b>	9708 Medical Center Dr	Montgomery County	Renewal	30,000
<b>ELY</b>	1221 Carraway Ct	Prince George's County	New Lease	19,000

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
<b>10078 TYLER CT</b>	Montgomery	Jun-23	\$4,200,000	28,000	\$150	FISCquisition LLC	Mid-Atlantic Sports, LLC
<b>8700 RITCHIE DR</b>	Prince George's	May-23	\$20,400,000	103,193	\$198	LBA Realty	Principal Real Estate Investors LLC
<b>15827 COMMERCE CT</b>	Prince George's	Apr-23	\$14,000,000	143,269	\$98	Caves Valley Partners	Hammond Beverage Group
<b>15193-15207 MARLBORO PIKE</b>	Prince George's	Apr-23	\$3,000,000	45,796	\$66	Jeremy Landsman	Jerry L Holly Property Management
<b>2918 RITCHIE RD</b>	Prince George's	Mar-23	\$2,700,000	15,000	\$180	Grajes LLC	Eli Busada Enterprises
<b>5214-5216 MONROE PL</b>	Prince George's	Mar-23	\$2,850,000	27,198	\$105	Sandhu Properties	Trans American Research & Development Corporation

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

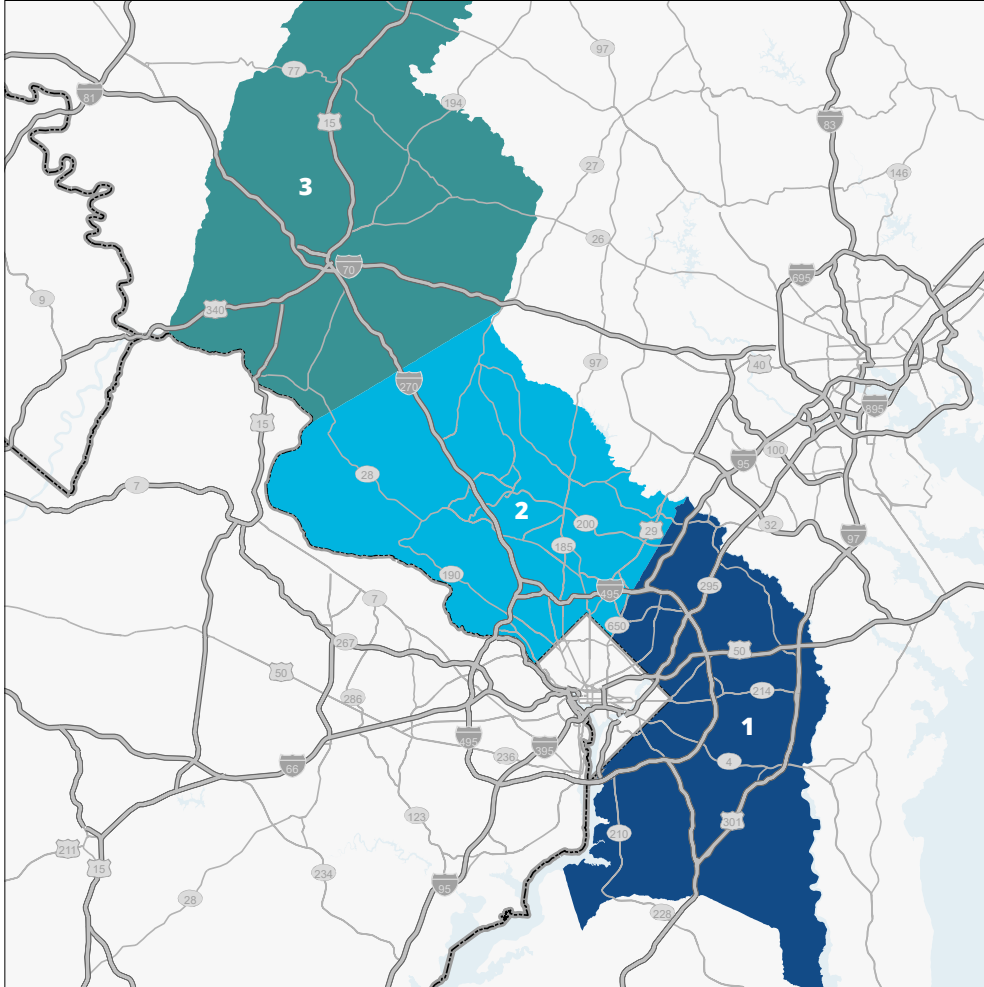


**MARKET INDICATORS**

All Classes of Space | 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
<b>BULK WAREHOUSE</b>	20,532,877	1,318,211	6.4%	7.1%	1,083,901	(18,000)	113,000	\$8.74
<b>FLEX/WAREHOUSE</b>	35,370,746	1,868,710	5.3%	5.6%	328,000	(54,000)	386,000	\$10.95
<b>FLEX/R&amp;D</b>	2,551,955	168,429	6.6%	6.9%	0	38,000	77,000	\$16.56
<b>PRINCE GEORGE'S COUNTY</b>	<b>58,455,578</b>	<b>3,355,350</b>	<b>5.7%</b>	<b>6.2%</b>	<b>1,411,901</b>	<b>(34,000)</b>	<b>576,000</b>	<b>\$10.42</b>
<b>BULK WAREHOUSE</b>	2,997,349	431,618	14.4%	14.4%	0	(29,000)	2,000	\$14.16
<b>FLEX/WAREHOUSE</b>	15,432,803	902,951	5.9%	6.7%	669,140	70,000	123,000	\$16.18
<b>FLEX/R&amp;D</b>	4,469,884	630,254	14.1%	14.5%	0	(4,000)	(201,000)	\$15.54
<b>MONTGOMERY COUNTY</b>	<b>22,900,036</b>	<b>1,964,823</b>	<b>8.6%</b>	<b>9.2%</b>	<b>669,140</b>	<b>37,000</b>	<b>(76,000)</b>	<b>\$15.79</b>
<b>BULK WAREHOUSE</b>	6,471,087	718,291	11.1%	11.3%	1,075,420	126,000	92,000	\$8.11
<b>FLEX/WAREHOUSE</b>	10,804,235	353,383	3.3%	3.9%	465,632	54,000	483,000	\$11.54
<b>FLEX/R&amp;D</b>	1,850,242	75,860	4.1%	4.1%	0	15,000	48,000	\$17.07
<b>FREDERICK COUNTY</b>	<b>19,125,564</b>	<b>1,147,534</b>	<b>6.0%</b>	<b>6.4%</b>	<b>1,541,052</b>	<b>195,000</b>	<b>623,000</b>	<b>\$10.91</b>
<b>BULK WAREHOUSE</b>	9,023,042	886,720	8.2%	8.7%	2,159,321	79,000	207,000	\$9.15
<b>FLEX/WAREHOUSE</b>	61,607,784	3,125,045	5.1%	5.6%	1,462,772	70,000	992,000	\$12.36
<b>FLEX/R&amp;D</b>	8,872,081	874,543	9.9%	10.1%	0	49,000	(76,000)	\$16.15
<b>TOTAL</b>	<b>100,481,178</b>	<b>6,467,707</b>	<b>6.4%</b>	<b>6.9%</b>	<b>3,622,093</b>	<b>198,000</b>	<b>1,123,000</b>	<b>\$11.74</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 flex and industrial 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**

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