

NORTHERN VIRGINIA INDUSTRIAL MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.4	2.6	↓	3.3	↓
NET ABSORPTION (THOUSANDS SF)	(28.0)	626.0	↓	289.2	↑
DIRECT VACANCY RATE	4.8%	4.8%	↔	6.2%	↓
DIRECT VACANT SF (MSF)	4.4	4.3	↑	5.5	↓
UNDER CONSTRUCTION (MSF)	0.5	1.2	↓	0.8	↑
ASKING RENT, NNN (PSF)	\$13.85	\$12.34	↑	\$11.23	↑
SALES VOLUME (MILLIONS)	\$35.7	\$644.9	↓	\$257.4	↑

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

INDUSTRIAL MARKET EDGED DOWN IN THIRD QUARTER

The Northern Virginia industrial market slightly weakened in the quarter, totaling 28,000 SF of negative absorption. This was due in part to multiple smaller vacancies outweighing the fewer, larger, leases that occurred in the quarter. The direct vacancy rate edged-up 20-basis points to 4.8% but remained low enough to push rents up. Asking rental rates increased 2.1% for the quarter, averaging \$13.85 PSF, with a 12.3% increase year-over-year.

Although economic uncertainty has slowed the overall market, industrial has maintained its footing. The vacancy rate will remain low enough to push rents up, albeit at a slowing pace. The industrial outlook remains bright, with e-commerce fueling demand in the years to come, coupled with advanced manufacturing boosting need for space. This stems from passed legislation, such as the Infrastructure and Investment Jobs Act, as well as the CHIPS and Science Act. Reshoring could also boost demand in the near-term. This trend is expected to accelerate as access to suppliers and speed-to-market has become increasingly more critical than labor cost savings.

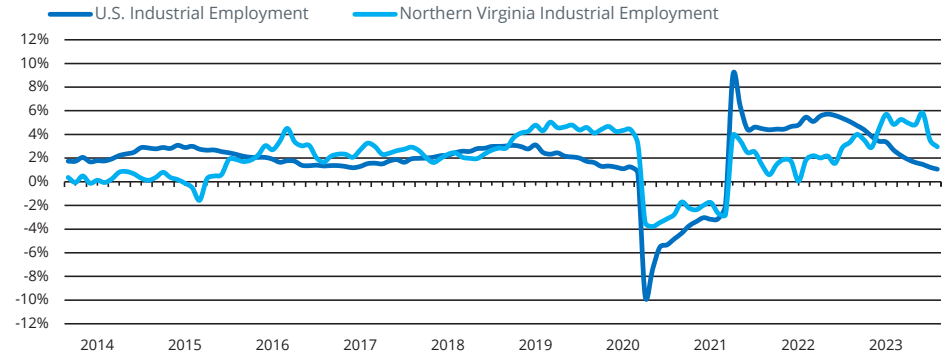


ECONOMY

Industrial-Using Job Growth Slows

- 24,400 new jobs were added to the Northern Virginia economy during the 12-months ending in August 2023. The industry sectors that experienced the largest growth were education/health which added 10,400 new jobs in that timespan.
- Industrial-using jobs added 5,700 new jobs to the market, the lowest year-over-year additional since November 2022. The construction sector performed the strongest by adding 2,200 new jobs to the market.
- The unemployment rate in Northern Virginia is 2.3% in July 2023 and averaged 2.4% over the past three months. Arlington County has the lowest unemployment rates in the Northern Virginia, at 1.9%.
- We expect industrial-using jobs in Northern Virginia to maintain its growth into 2024 as demand for industrial products remain high. However, economic factors such as inflation and high interest rates may temper this growth.

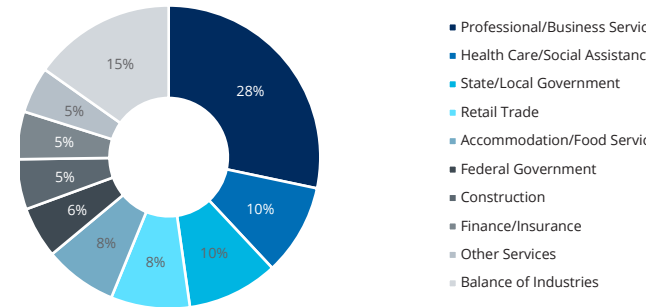
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

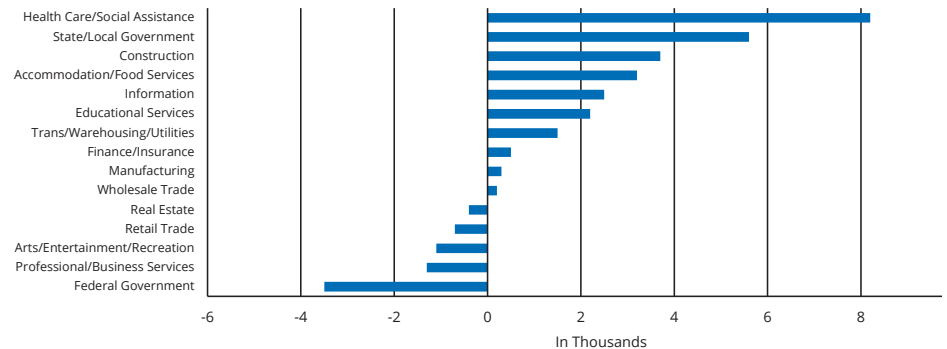
Northern Virginia | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

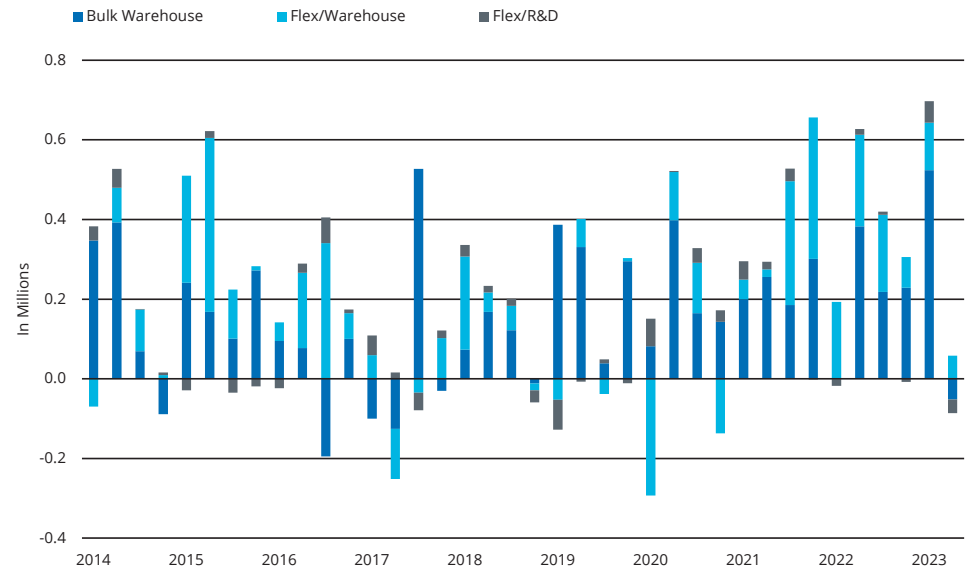


NET ABSORPTION

Industrial Market Absorption Dips Negative

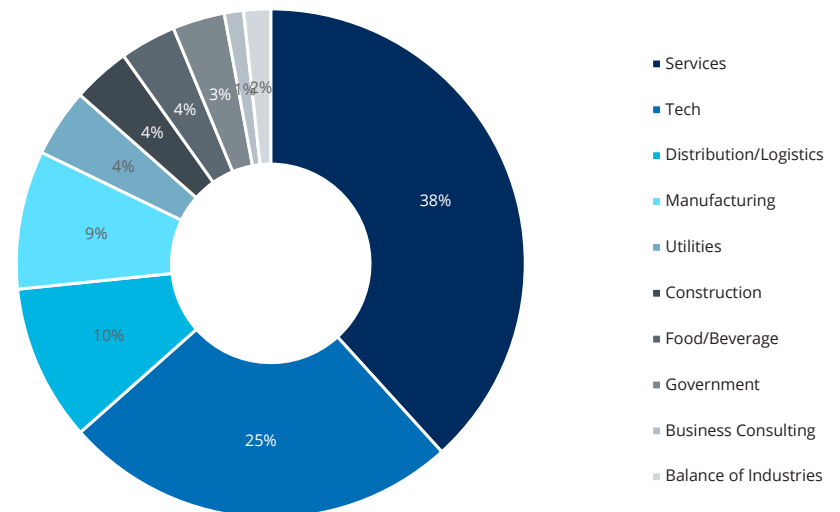
- The Northern Virginia industrial market slightly weakened in the third quarter, totaling 28,000 SF of negative absorption. This is the first quarter of negative absorption since the first quarter of 2019.
- The swing to negative absorption was aided by Smoot Lumber vacating 67,206 SF at 6295 Edsall Road and AV Automotive leaving 41,292 SF at 611 S. Pickett Street, both in the I-95 Corridor. Notable deals that counteracted included U-Haul signing for 108,219 SF at 6295 Edsall Road and also HubGroup inking 40,254 SF at 4500 Southgate Place in the Dulles Corridor.
- Aided by the U-Haul lease signing, and Harris Teeter signing for 34,313 SF at 8700-8730 Morrissette Drive, I-95 Corridor was the largest source of positive absorption, totaling 82,000 SF. The Dulles Corridor was the largest source of negative absorption, totaling 135,000 SF, which was due in part to Teleproductions International vacating 27,390 SF at 14020 Thunderbolt Place and Conflict Kinetics leaving 25,871 SF at 22977 Eaglewood Court.
- We expect net absorption to return to trending positive through 2024 as demand for industrial product remains high. However, the positive numbers may remain modest due to the limited availability.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

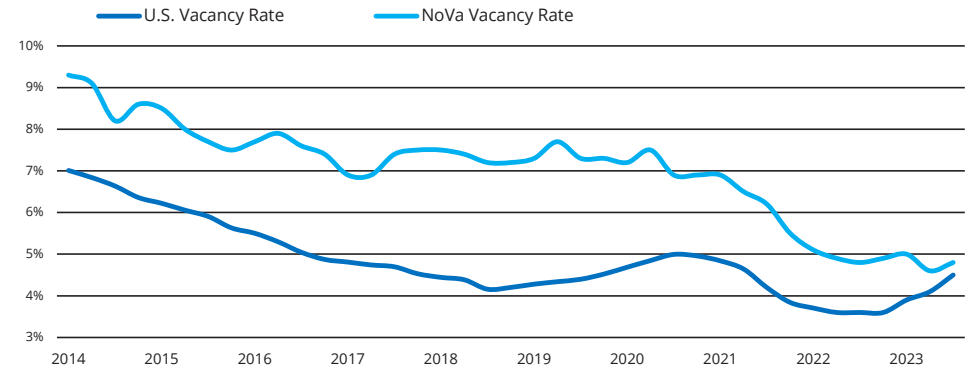


VACANCY

Vacancy Rate Ticks Up to 4.8%

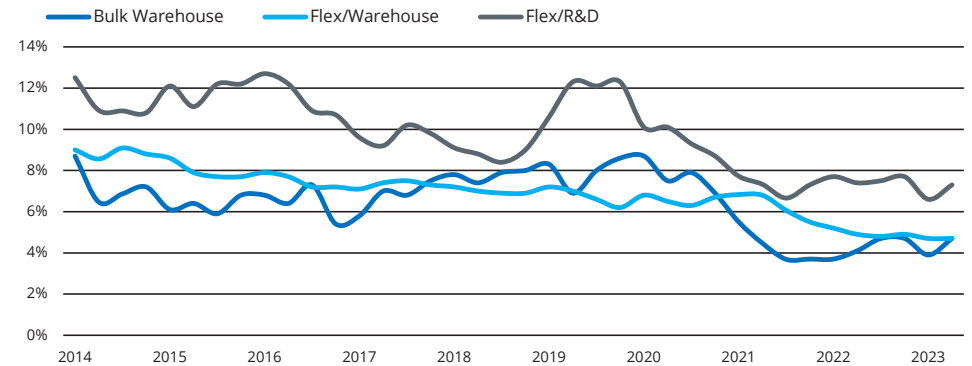
- The industrial market slowed this quarter as the vacancy rate increased 20-basis points to 4.8%. This mirrors the vacancy rate for the third quarter of 2022.
- Bulk warehouse product struggled in the third quarter as the vacancy rate rose 80-basis points to 4.7%. While flex/R&D vacancy rate increased by 70-basis points to 7.3%, and flex/ warehouse remained stable 4.7%.
- The I-95 Corridor continues to have the lowest vacancy rate in the market, edging 30-basis points down to 1.0%. Reston/Herndon experienced the largest decline in vacancy rate, decreasing by 180-basis points.
- The vacancy rate is likely to remain steadily low through 2024. Although pre-leasing for construction is relatively low, high-quality industrial space is leasing quickly due to a tight market.

DIRECT VACANCY RATE



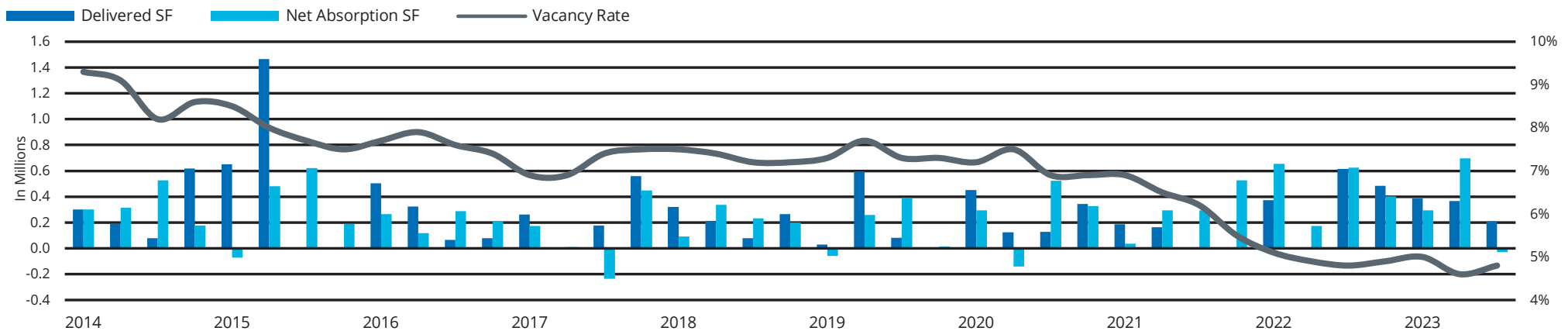
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

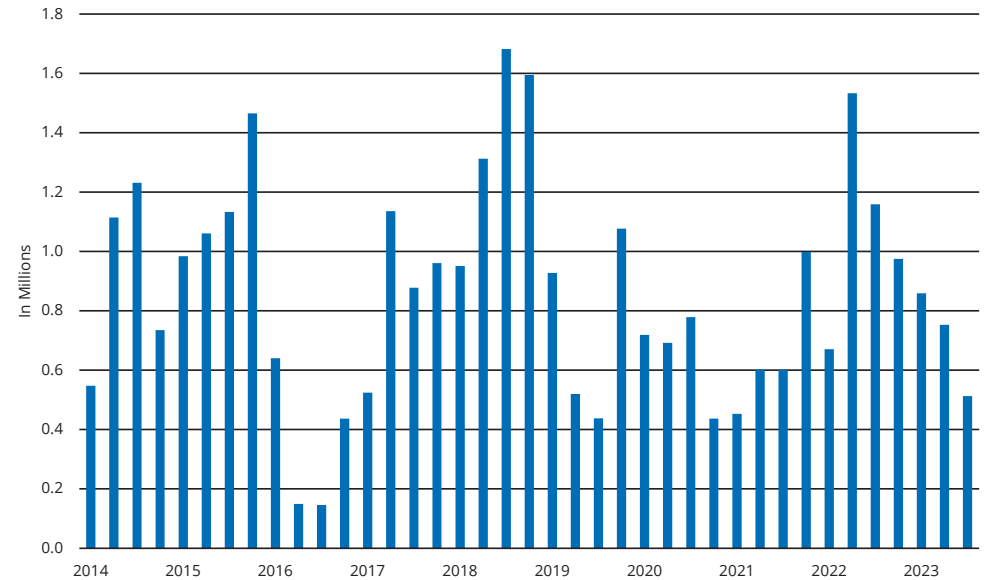


UNDER CONSTRUCTION

Three Projects Deliver With No Pre-Leasing

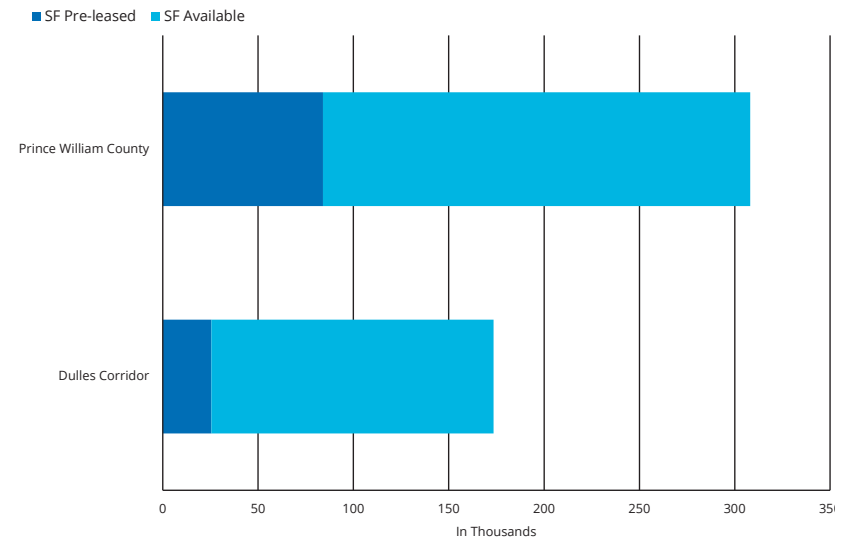
- Three projects delivered in the third quarter, adding 210,222 SF to the inventory with 0% pre-leased. The delivered projects include 11501 University Boulevard – Buildings B in Prince William County that delivered 138,500 SF, and 101 & 105 Oaklawn Drive that total 71,722 SF in the Dulles Corridor.
- The current pipeline has 512,862 SF under construction with 21% pre-leased. The largest project underway is 13600 Dabney Road – I-95 East Distribution Center – which is 74% pre-leased to Goodwill who inked 84,000 SF in the second quarter of 2023 in Prince William County.
- There were three additions to the pipeline in the quarter, with two in Prince William County, including 8233 Buckeye Timber Drive – Firestone 66 which will add 91,172 SF and was 11982 Wilton Meadows Court which will add 31,200 SF when delivered in the second quarter of 2024. The other addition was 23541 Pebble Run Place, which will total 37,500 SF when delivered in late 2023 in the Dulles Corridor.
- The construction pipeline currently holds four projects that are projected to be delivered in the remainder of 2023, and four projects facing 2024 delivery dates. Of these eight total projects, 272,162 SF is anticipated to be delivered by the end of 2023 and the remaining 240,700 SF is to be delivered in the first half of 2024.
- We expect construction levels to lessen slightly in the near-term as economic conditions such as inflation and high interest rates may give select developers pause on projects that are still in the planning phase.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

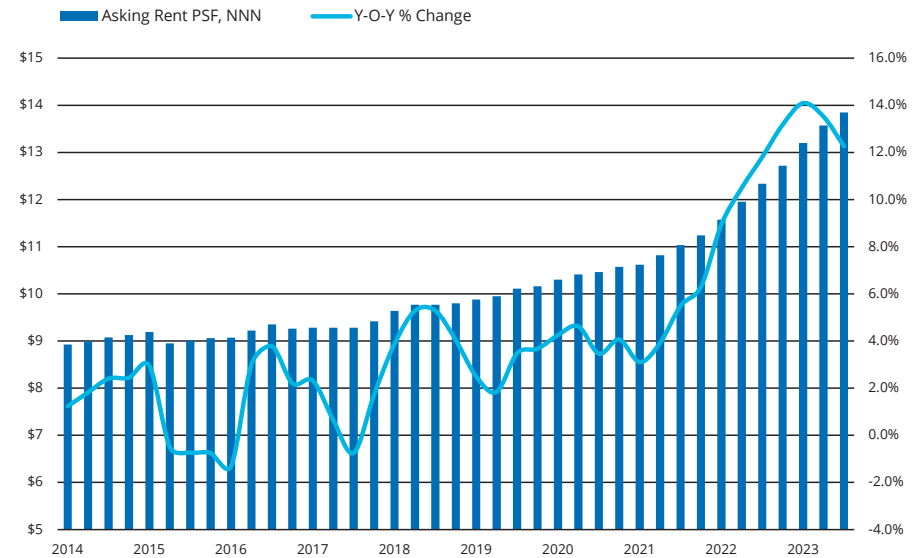


RENTAL RATES

Asking Rent Continue Growth in Third Quarter

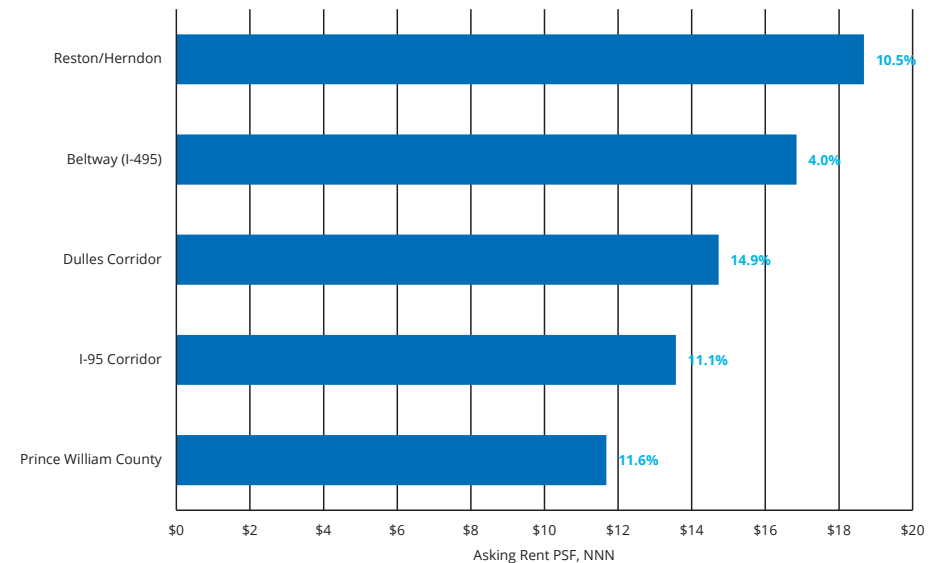
- Asking rents rose 210-basis points to \$13.85 PSF in the quarter and 12.3% year-over-year. Bulk warehouse experienced the largest jump in rental rates for the quarter, rising 2.8% to \$12.95 PSF, as well as year-over-year, rising 13.8% to \$12.95 PSF. Flex/warehouse and flex/R&D both had rental rates increase by 180-basis points over the quarter to \$13.99 PSF and \$16.90 PSF, respectively.
- Dulles Corridor had the largest quarterly rental rate increase, rising 300-basis points to \$14.73 PSF. Dulles Corridor also had the largest year-over-year increase in rental rate, rising 14.9%, up from \$12.82 PSF in the second quarter of 2022.
- Reston/Herndon continues to be the submarket with the highest asking rent at \$18.74 PSF, but experienced a slight decline in rental rate, edging down 30-basis points to \$18.68 PSF. While the second highest rates are held by Beltway (I-495) total \$16.85 PSF, which is also a decrease of 40-basis points from the previous quarter.
- We expect rent growth at strong rates through 2024 as demand for industrial space remains heightened. 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

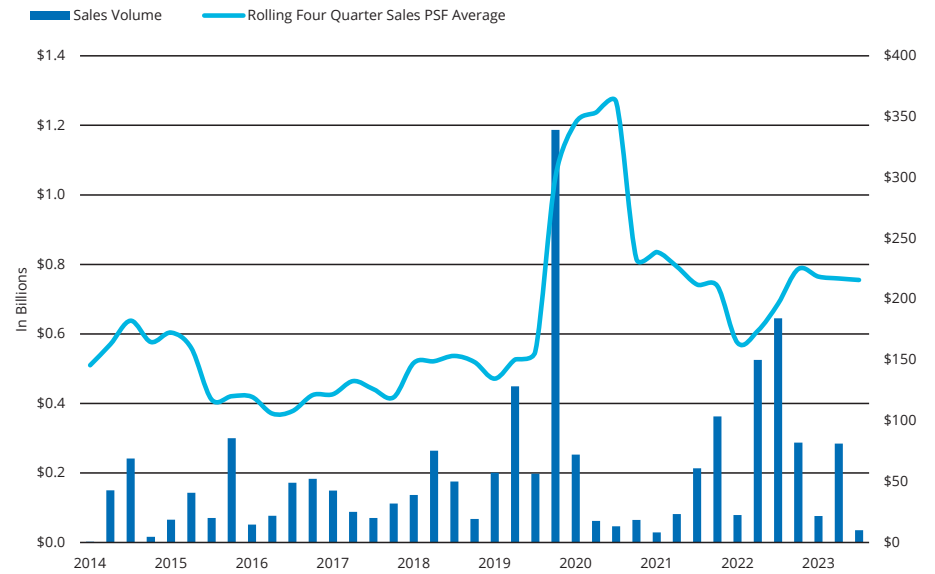


SALES

Industrial Investment Sales Wane In Back Half Of 2023

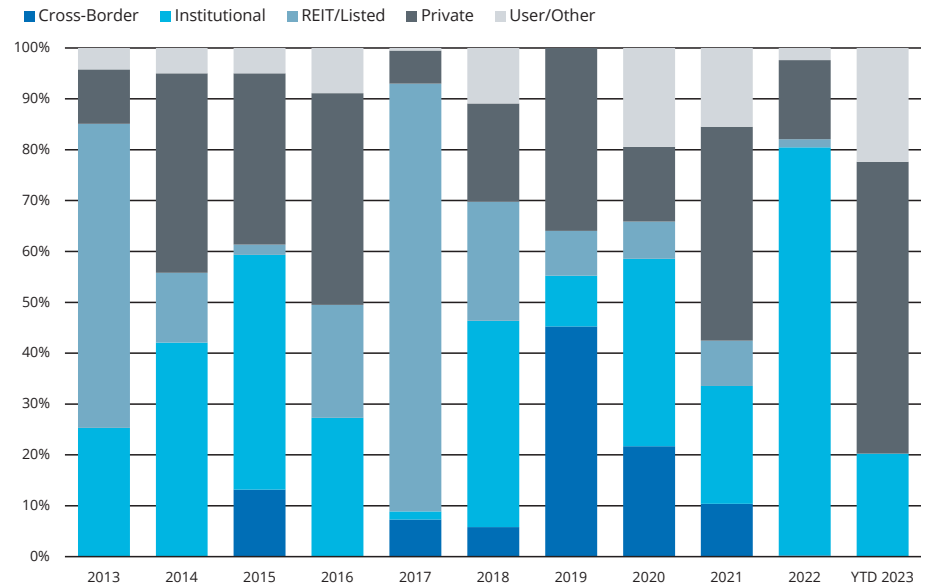
- There were four transactions in the third quarter of 2023, totaling \$36.6 million or \$213 PSF. This is a sharp decrease from the second quarter which totaled 26 transactions which was buoyed by a large portfolio sale of 16 properties.
- The largest transaction was Capital Investment Advisors purchasing 7741 Southern Avenue in the I-95 Corridor for \$13.9 million, or \$226 PSF. Another notable sale was JK Moving Services purchasing 14310 Sullyfield Circle in the Dulles Corridor for \$13.5 million, or \$241 PSF.
- Transaction volume will likely continue to remain low in the remainder 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
UHAUL	6295 Edsall Rd	I-95 Corridor	New Lease	108,219
HUBGROUP	4500 Southgate Pl	Dulles Corridor	New Lease	40,254
HARRIS TEETER	6306 Gravel Ave	I-95 Corridor	New Lease	34,313
ENSCO, INC.	3750 Centerview Dr	Dulles Corridor	New Lease	27,954
LOCKHEED MARTIN	22900 Shaw Rd	Dulles Corridor	Renewal	23,119
NORTHROP GRUMMAN	4260-4264 Entre Ct	Dulles Corridor	Renewal	17,600

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
9208 ENTERPRISE CT	Prince William County	Aug-23	\$4,600,000	25,000	\$184	Sinan Yasir	EMIN HALAC
7741 SOUTHERN DR	I-95 Corridor	Jul-23	\$13,965,000	61,700	\$226	Capital Investment Advisors, LLC	WTG Properties Inc.
14310 SULLYFIELD CIR	Dulles Corridor	Jul-23	\$13,500,000	55,989	\$241	JK Moving Services	Marcus Witowski
6611 IRON PL	I-95 Corridor	Jul-23	\$3,600,000	25,000	\$144	RJM Management	Service Neon Signs
22491 LADBROOK DR	Dulles Corridor	Jun-23	\$20,423,563	70,925	\$288	Northwestern Mutual Life Insurance Company	Broad Street Realty
22615 LADBROOK DR	Dulles Corridor	Jun-23	\$25,166,840	87,397	\$288	Northwestern Mutual Life Insurance Company	Broad Street Realty

= Transwestern deal

Source: CoStar, CompStak, Transwestern.



MARKET INDICATORS

All Property Types | Q3 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	108,467	3.4%	3.7%	0	(8,000)	(8,000)	\$16.89
FLEX/R&D	366,459	71,826	19.6%	19.6%	0	0	(2,000)	\$16.48
BELTWAY (I-495)	3,851,727	183,342	4.8%	5.0%	0	(8,000)	(10,000)	\$16.85
BULK WAREHOUSE	4,938,241	56,296	1.1%	1.4%	0	(22,000)	87,000	\$13.12
FLEX/WAREHOUSE	18,769,458	95,910	0.5%	0.5%	0	102,000	75,000	\$13.37
FLEX/R&D	1,210,412	91,991	7.6%	7.6%	0	2,000	5,000	\$18.56
I-95 CORRIDOR	24,918,111	244,197	1.0%	1.0%	0	82,000	167,000	\$13.57
BULK WAREHOUSE	70,982	0	0.0%	0.0%	0	0	0	N/A
FLEX/WAREHOUSE	1,568,332	79,643	5.1%	5.9%	0	30,000	39,000	\$19.82
FLEX/R&D	555,023	38,852	7.0%	7.0%	0	9,000	4,000	\$15.46
RESTON/HERNDON	2,194,337	118,494	5.4%	6.0%	0	39,000	44,000	\$18.68
BULK WAREHOUSE	13,051,625	796,149	6.1%	6.2%	70,400	(29,000)	111,000	\$12.87
FLEX/WAREHOUSE	22,769,631	1,650,591	7.2%	7.2%	103,100	(90,000)	250,000	\$15.60
FLEX/R&D	2,263,869	97,346	4.3%	4.3%	0	(16,000)	5,000	\$16.79
DULLES CORRIDOR	38,085,125	2,544,086	6.7%	6.7%	173,500	(135,000)	365,000	\$14.73
BULK WAREHOUSE	7,322,060	340,476	4.7%	4.7%	216,990	(1,000)	722,000	\$12.99
FLEX/WAREHOUSE	14,107,996	926,451	6.6%	6.7%	91,172	24,000	91,000	\$10.93
FLEX/R&D	363,066	47,199	13.0%	13.0%	0	(29,000)	(9,000)	\$14.66
PRINCE WILLIAM COUNTY	21,793,122	1,314,125	6.0%	6.1%	308,162	(6,000)	805,000	\$11.68
BULK WAREHOUSE	25,687,820	1,195,970	4.7%	4.8%	287,390	(52,000)	920,000	\$12.95
FLEX/WAREHOUSE	60,395,773	2,861,062	4.7%	4.8%	194,272	58,000	447,000	\$13.99
FLEX/R&D	4,758,829	347,214	7.3%	7.3%	0	(34,000)	3,000	\$16.90
TOTAL	90,842,422	4,404,245	4.8%	4.9%	481,662	(28,000)	1,371,000	\$13.85

Source: CoStar, Transwestern

