

SUBURBAN MARYLAND INDUSTRIAL MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	1.9	4.9	↓	5.2	↓
NET ABSORPTION (THOUSANDS SF)	676.0	477.0	↑	317.4	↑
DIRECT VACANCY RATE	6.8%	6.3%	↑	7.1%	↓
DIRECT VACANT SF (MSF)	6.9	6.3	↑	7.0	↓
UNDER CONSTRUCTION (MSF)	3.5	3.1	↑	2.1	↑
ASKING RENT, NNN (PSF)	\$11.92	\$10.83	↑	\$9.69	↑
SALES VOLUME (MILLIONS)	\$31.1	\$261.1	↓	\$120.7	↑

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

INDUSTRIAL MARKET CONDITIONS WERE MIXED IN Q3 2023

The Suburban Maryland industrial market was mixed during the third quarter of 2023 with 676,000 SF of positive net absorption driven mostly by larger lease signings and pre-leased deliveries. However, the direct vacancy rate increased 40 basis points to 6.8% due to multiple construction projects delivering vacant. Asking rents rose 1.6% over the past three months to \$11.92 PSF and are up 10.1% over the year, as heightened demand and a low vacancy rate continues to increase prices.

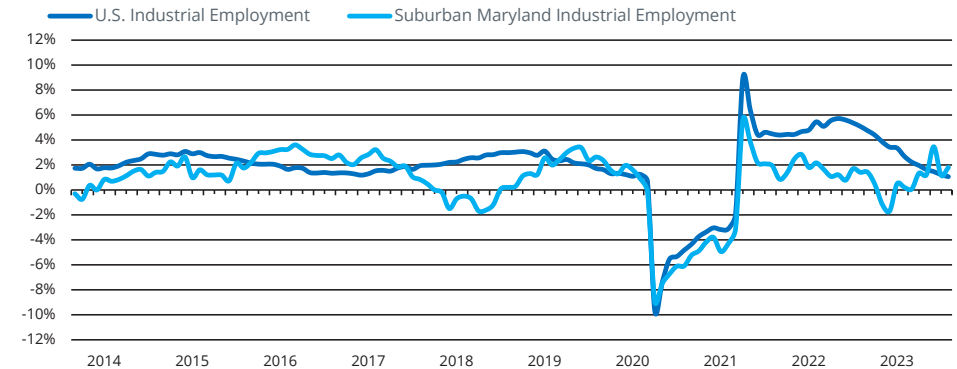
Although economic uncertainty has slowed the overall market, industrial has maintained its footing. The vacancy rate will remain low enough to push rents up, albeit at a slowing pace. The industrial outlook remains bright, with e-commerce fueling demand in the years to come, coupled with advanced manufacturing 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 Job Growth Remains Strong

- 13,600 new jobs were added to the Suburban Maryland economy during the 12-months ending August 2023, well-ahead of the pre-pandemic 5-year average of 9,900. This was driven by health care and the state/local government sector.
- Industrial-using jobs added 2,600 new positions during the 12 months ending August 2023, which is slightly ahead of the pre-pandemic 5-year average of 2,300. Most of the growth during the past year occurred within the construction sector but was offset slightly job cuts in the trade/transportation/utilities Sector.
- The unemployment rate in Suburban Maryland is currently at 1.8% in July 2023 which is on par with the average over the past three months. The rate has improved significantly from the peak of 10.4% in July 2020. Montgomery County has the lowest unemployment rate at 1.5%.
- 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.

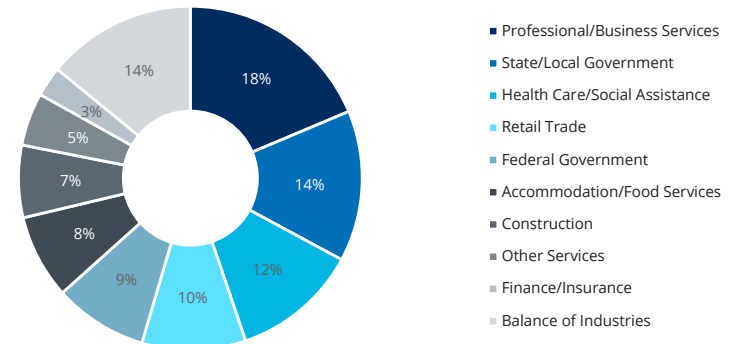
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

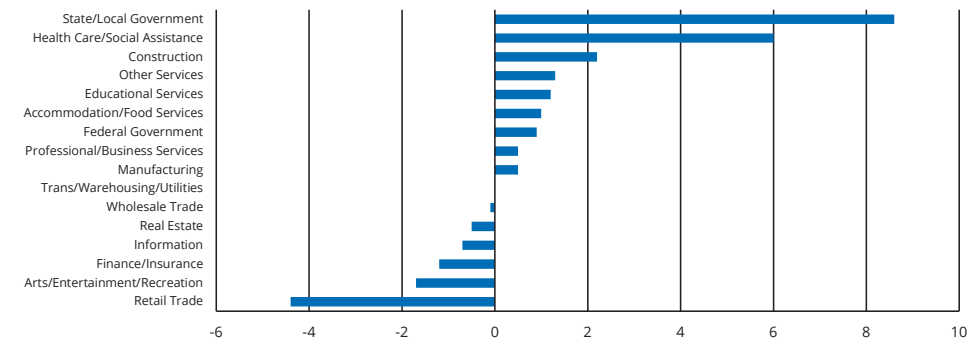
Suburban Maryland | August 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

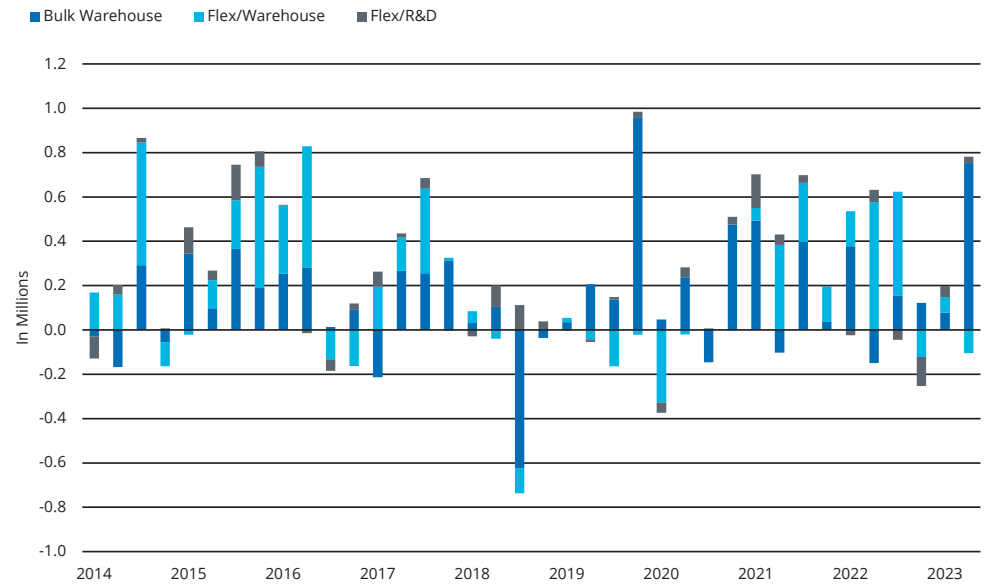


NET ABSORPTION

Frederick County Boosts Positive Net Absorption in Q3

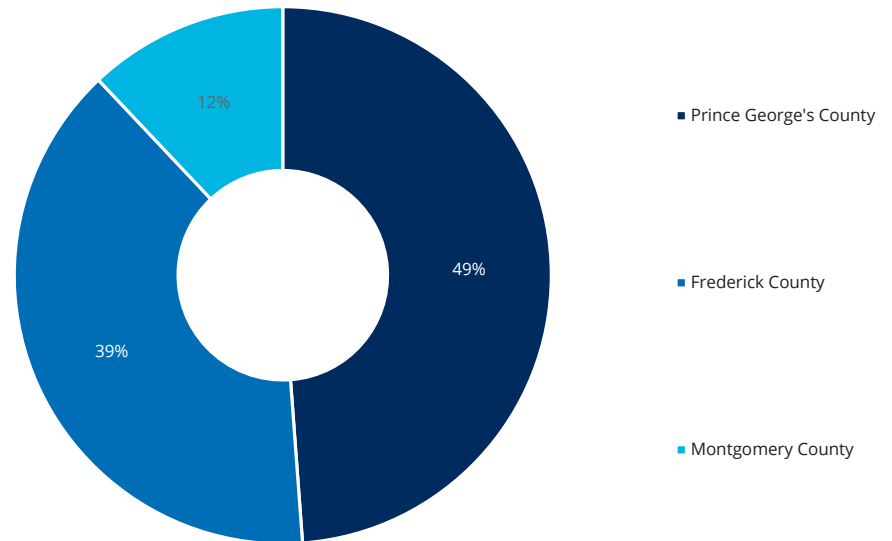
- Net absorption totaled positive 676,000 SF during the third quarter of 2023, after totaling positive 198,000 SF during the second quarter of 2023.
- Frederick County continues to have the strongest net absorption for the third quarter in a row with 503,000 SF and 886,000 SF year-over-year.
- One of the largest deals of the quarter was Metrie executing a 278,160 SF a pre-lease at 8995-9063 Gas House Pike in Frederick County which delivered this quarter. Another large pre-lease was Tribble's signing for 102,377 SF at 801 Prince Georges Boulevard in Prince George's County which also delivered this quarter. Lastly in Montgomery County, Dill Dinkers signed for 24,000 SF at 40 Southlawn Court.
- Countering this positive net absorption slightly were a couple of mid-sized move outs that occurred over the quarter. Flying Dog Brewery vacated 55,755 SF at 4607 Wedgewood Boulevard in Frederick County as the building is currently up for sale. While The Washington Post vacated 18,532 SF at 86 Derwood Circle in Montgomery County.
- We expect net absorption to remain healthy but with limited inventory, net absorption is likely to decelerate due to lack of space to match demand.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY SUBMARKET YTD 2023



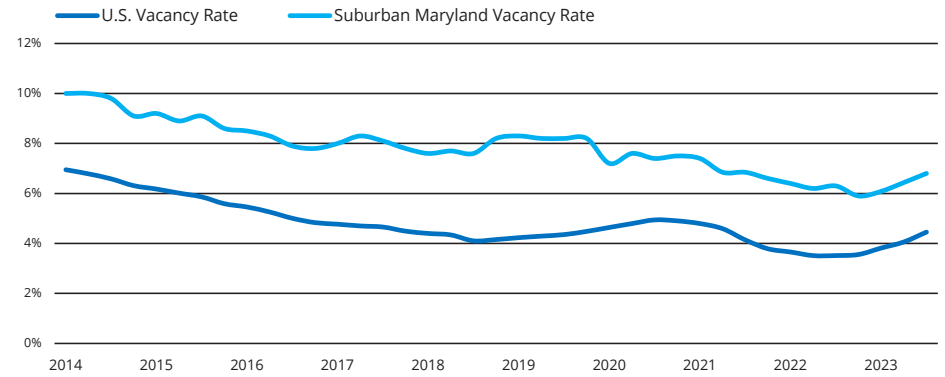
Source: CoStar, Transwestern

VACANCY

Vacancy Rate Increases Due to Vacant Deliveries in Q3

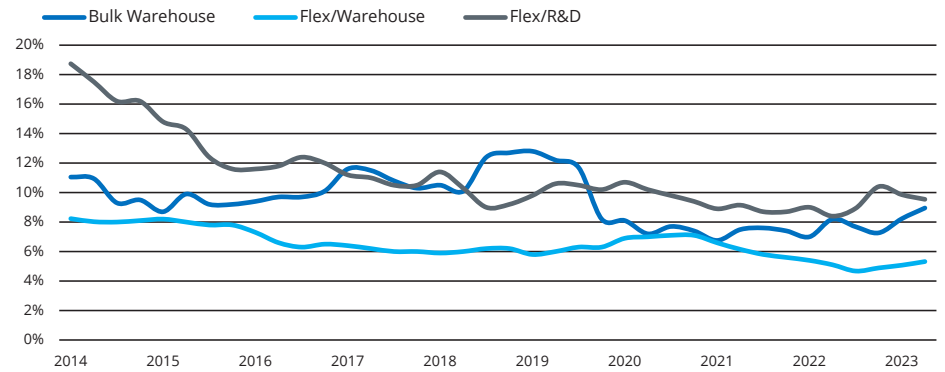
- The direct vacancy rate increased 40 basis points to 6.8% at September 2023 and is up from 6.3% one year ago. The rate is below pre-pandemic levels and is also below the five-year average of 7.7%.
- Flex/warehouse continues to have the lowest rate at 5.3% during the quarter, up from 5.1% the quarter prior. Bulk warehouse increased to 9.0%, up from 8.2% the quarter prior.
- Montgomery County continues to hold the highest vacancy rate at 8.4%, which decreased 20 basis points from last quarter. Frederick County followed at 8.3% which is a 230-basis point increase from last quarter driven by multiple projects delivering vacant, and Prince George’s County remained the same as last quarter, settling at 5.7%.
- The vacancy rate should steadily decline through 2024. However, the decline will likely not be as steep as previous quarters.

DIRECT VACANCY RATE



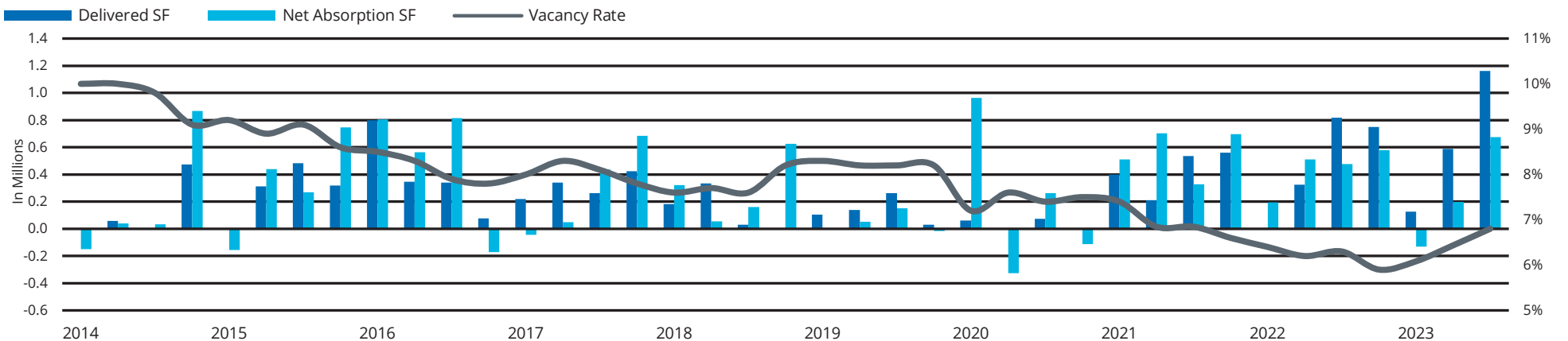
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



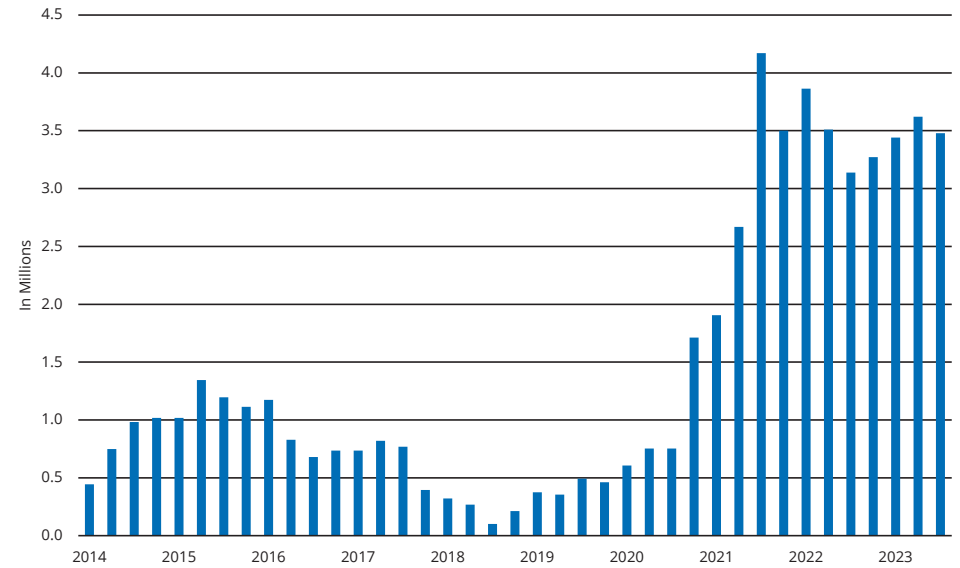
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Eight Projects Deliver in Q3 2023

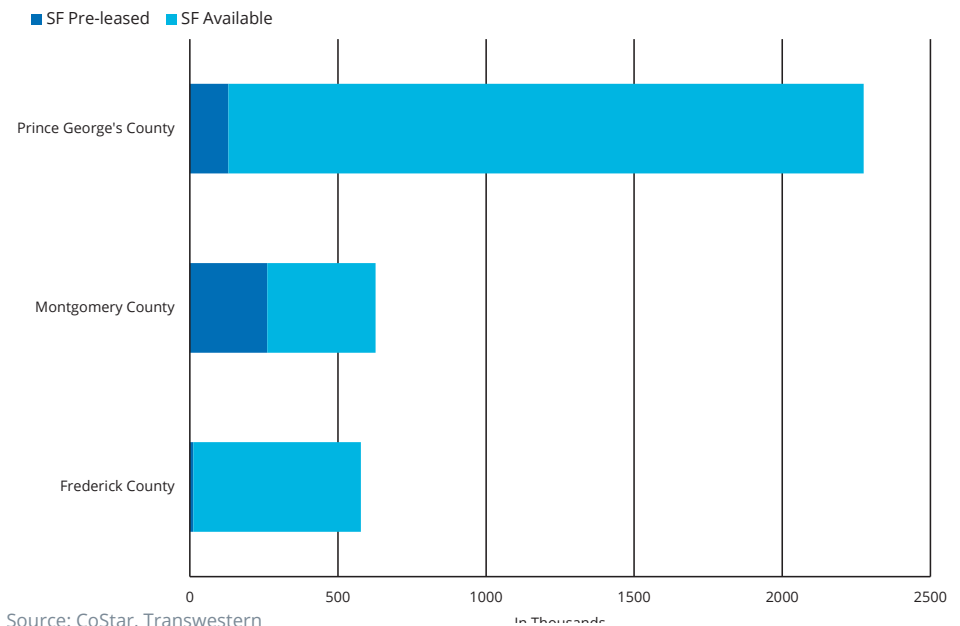
- Eight projects delivered during the third quarter of 2023, totaling 1.2 million SF. These projects came online at 44% pre-leased. More than half of the delivered SF came from the Frederick Commerce Center Project at 8995-9063 Gas House Price in Frederick delivering 684,000 SF of which 41% was pre-leased.
- There is 3.5 million SF under construction at 12% pre-leased as of September 2023, down slightly from 3.6 million SF during the second quarter of 2023, and up from 3.1 million SF one year ago. Prince George’s County now has the most construction volume underway with 2.3 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. Another notable project in Montgomery County is 9810 Darnestown Road, a 200,000 SF flex/warehouse, which is expected to deliver by the end of the year.
- With excess demand and limited quality supply, we expect future groundbreakings. The pipeline should grow over the next year to meet these requirements. However, market conditions, increased construction costs and lead times, as well as zoning issues might deter select developers.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

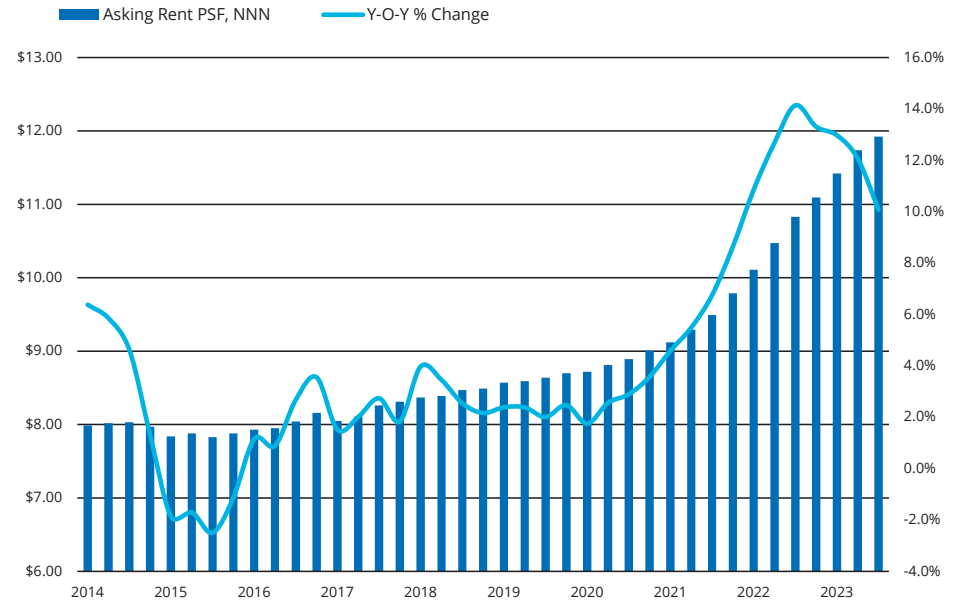


RENTAL RATES

With Excess Demand, Rents Continue to Increase

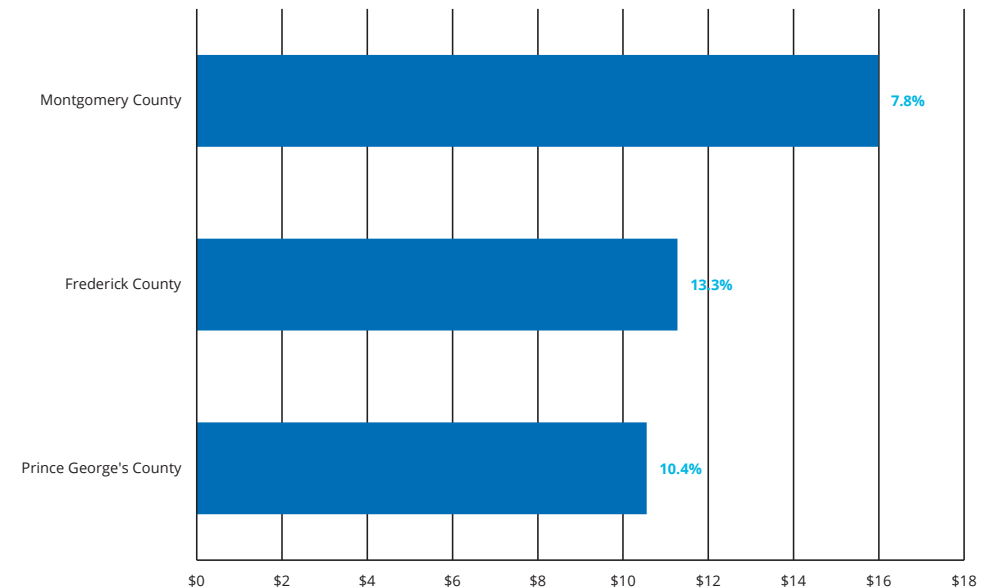
- Industrial asking rents increased 1.6% during the third quarter of 2023, landing at \$11.92 PSF. Rent growth remains strong at 10.1% year-over-year.
- Rents decreased slightly for bulk warehouse during the quarter by 0.4%, settling at \$9.11 PSF. Flex/warehouse rose 2.4% to \$12.66 PSF and flex/R&D increased 3.1% to \$16.66 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 13.3% year over year.
- We expect continued rent growth through 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 slightly.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

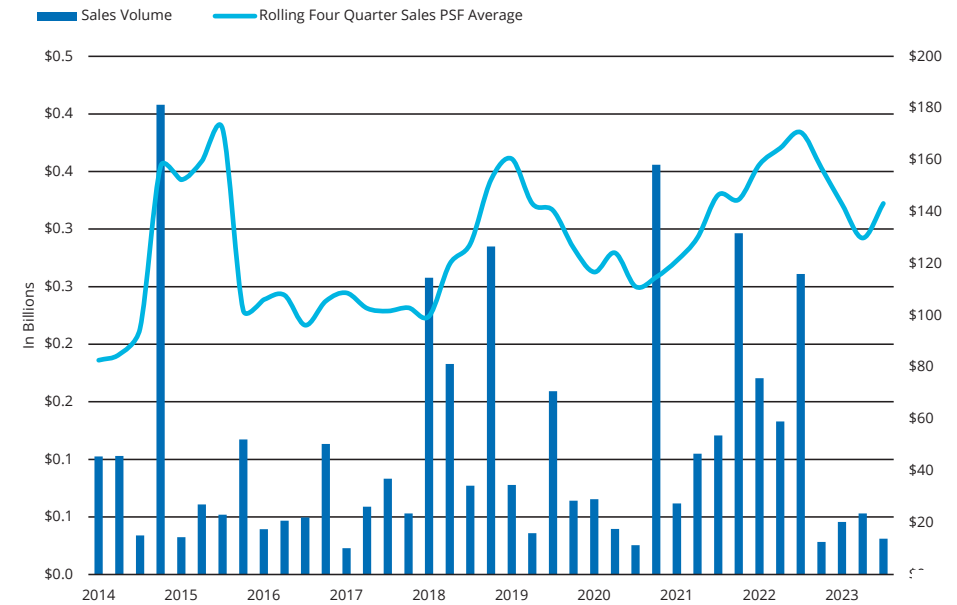


SALES

Sales Volume Limited in Q3

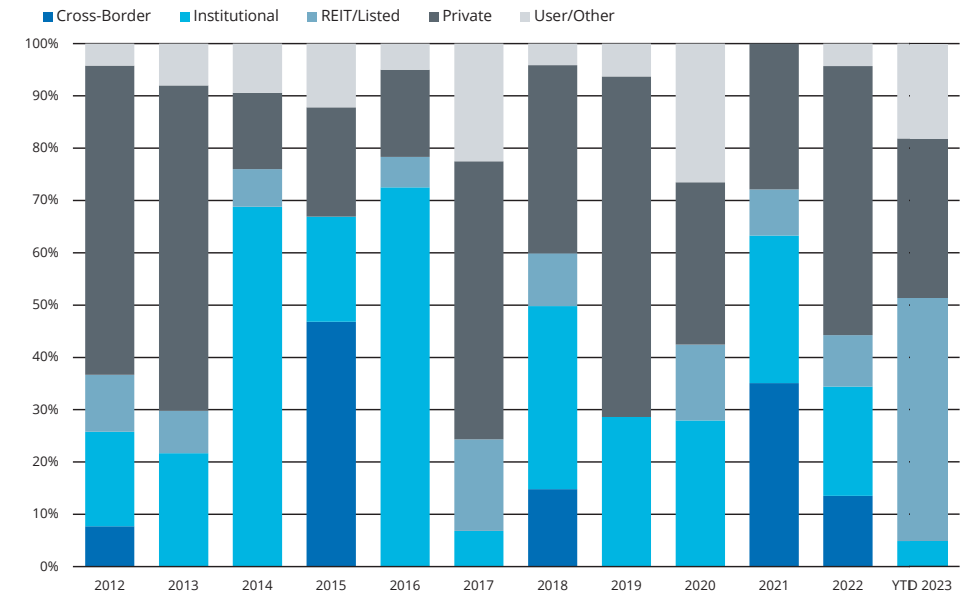
- Investment sales totaled \$31.1 million or \$225 PSF during the third quarter of 2023 on one transaction. This compares to eight transactions at \$53.0 million or \$130 PSF during the second quarter of 2023.
- This is tied for the lowest quarterly sales volume since the second quarter of 2020, as shifts in economic conditions have impacted the rate in which they are done.
- The only deal that occurred during the quarter was at 1000 Hampton Park Boulevard in Prince George’s County. GID Investment Advisors purchased this 138,406 SF bulk warehouse asset from TA Realty for \$31.1 million or \$225 PSF. This asset was purchased at a 4.75% cap rate as the building was fully leased at time of purchase with the tenant intending on vacating in the next 12 months.
- We expect investment sales volume to remain steady but limited through 2024 as investors remain cautious of market conditions and how they may shift as time moves 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
METRIE	8995-9063 Gas House Pike	Frederick County	Pre-Lease	278,000
FERGUSON	11730-11750 Baltimore Ave	Prince George's County	Renewal	114,000
GSA	Louie Pepper Dr - Building 1	Prince George's County	Pre-Lease	108,000
CANNON HILL LOGISTICS	6051 Jefferson Station Ct	Frederick County	New Lease	95,000
GSA	Louie Pepper Dr - Building 2	Prince George's County	Pre-Lease	90,000
TRI MARK ADAMS-BURCH	1901 Stanford Ct	Prince George's County	Renewal	89,000

= Transwestern deal

Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
1000 HAMPTON PARK BLVD	Prince George's	Jul-23	\$31,125,000	138,406	\$225	GID Investment Advisors	TA Realty
1301 E PATRICK ST	Frederick	Jun-23	\$4,595,200	26,886	\$171	Rch Investments, LLC	Boss Hoss Cycles
5050 FORBES BLVD	Prince George's	Jun-23	\$3,280,000	20,600	\$159	TBN Associates	Rawlings properties
82 WORMANS MILL CT	Frederick	Jun-23	\$2,280,000	20,126	\$113	Flips Llc	Edward D. Scott
1 COUNCIL DR	Frederick	Jun-23	\$1,200,000	19,770	\$61	Drenner Real Est Frederick Cnt	Vintage Lumber
10078 TYLER CT	Montgomery	Jun-23	\$4,200,000	28,000	\$150	FISCquisition	Mid-Atlantic Sports

= Transwestern deal

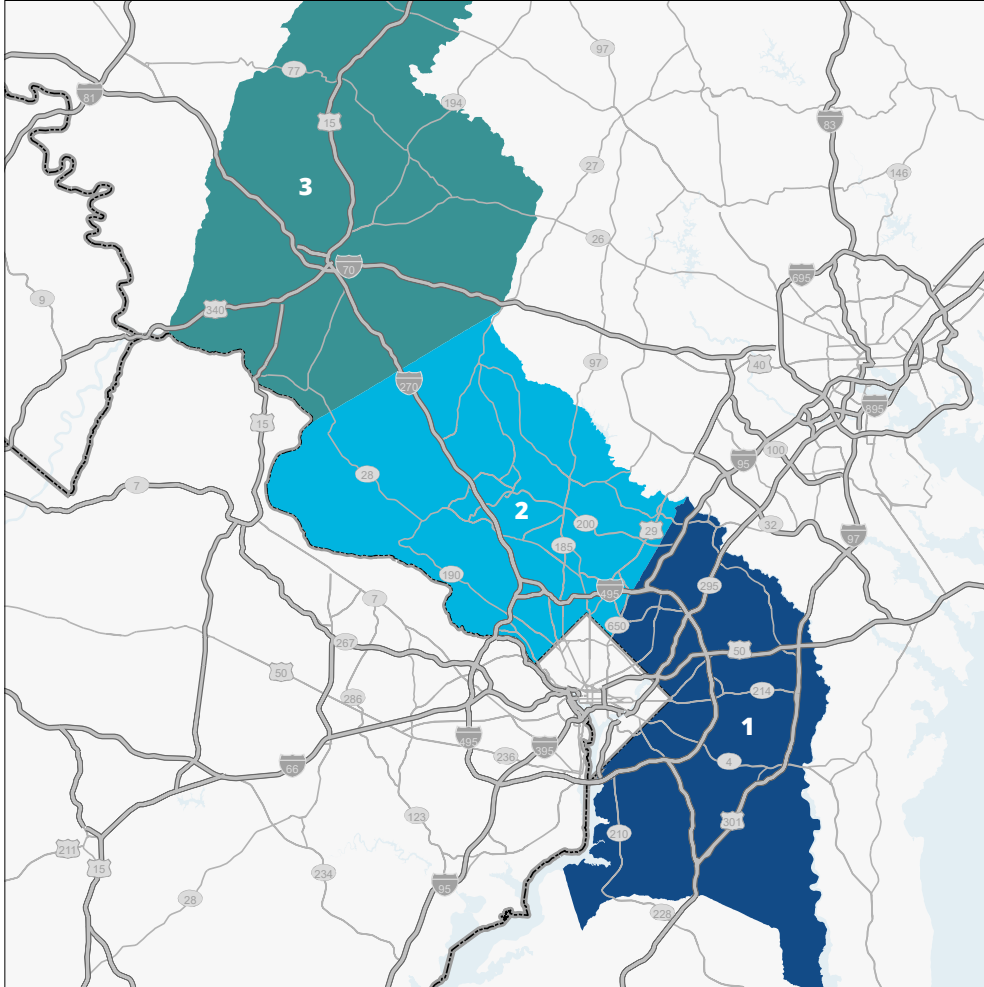
Source: CoStar, CompStak, Transwestern.

MARKET INDICATORS

All Classes of Space | 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	20,635,254	1,258,750	6.1%	6.5%	1,946,576	162,000	293,000	\$8.56
FLEX/WAREHOUSE	35,370,746	1,898,912	5.4%	5.9%	328,000	(30,000)	176,000	\$11.23
FLEX/R&D	2,551,955	168,429	6.6%	7.7%	0	0	23,000	\$17.32
PRINCE GEORGE'S COUNTY	58,557,955	3,326,092	5.7%	6.2%	2,274,576	132,000	492,000	\$10.55
BULK WAREHOUSE	2,997,349	407,639	13.6%	13.6%	0	24,000	42,000	\$14.06
FLEX/WAREHOUSE	15,432,803	908,059	5.9%	6.6%	626,672	(5,000)	66,000	\$16.49
FLEX/R&D	4,469,884	607,904	13.6%	14.1%	0	22,000	(165,000)	\$15.55
MONTGOMERY COUNTY	22,900,036	1,923,603	8.4%	9.0%	626,672	41,000	(57,000)	\$15.99
BULK WAREHOUSE	7,434,907	1,115,236	15.0%	15.2%	216,000	567,000	774,000	\$8.63
FLEX/WAREHOUSE	10,856,493	476,140	4.4%	4.7%	361,174	(70,000)	68,000	\$11.87
FLEX/R&D	1,850,242	70,309	3.8%	3.8%	0	6,000	44,000	\$18.42
FREDERICK COUNTY	20,141,642	1,661,685	8.3%	8.5%	577,174	503,000	886,000	\$11.28
BULK WAREHOUSE	9,986,862	1,283,665	9.0%	9.3%	2,162,576	753,000	1,109,000	\$9.11
FLEX/WAREHOUSE	61,660,042	3,283,112	5.3%	5.9%	1,315,846	(105,000)	310,000	\$12.66
FLEX/R&D	8,872,081	846,642	9.5%	10.1%	0	28,000	(98,000)	\$16.66
TOTAL	101,599,633	6,911,380	6.8%	7.3%	3,478,422	676,000	1,321,000	\$11.92

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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