

I-81 CORRIDOR INDUSTRIAL MARKET

Q4 2023



TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.0	3.0	↔	4.0	↓
NET ABSORPTION (THOUSANDS SF)	50.0	(80.0)	↑	470.0	↑
DIRECT VACANCY RATE	9.4%	3.8%	↑	4.3%	↓
DIRECT VACANT SF (MSF)	7.8	2.9	↑	3.2	↓
UNDER CONSTRUCTION (MSF)	3.5	9.6	↓	4.2	↑
ASKING RENT, NNN (PSF)	\$8.32	\$7.71	↑	\$6.91	↑
SALES VOLUME (MILLIONS)	\$1.7	\$3.0	↓	\$46.5	↑

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

INDUSTRIAL MARKET MIXED AT Q4, BUT STRONG FOR 2023

The I-81 Corridor industrial market, which totals 83.2 million SF, experienced 50,000 SF of positive absorption in the fourth quarter. Conversely, the direct vacancy rate rose 90-basis points to 9.4% as new product delivered to the market with vacant space. Asking rental rates increased 1.9% for the quarter, averaging \$8.32 PSF, with an 8% increase year-over-year.

We expect steady market conditions in the I-81 Corridor industrial market during 2024. Aided by demolitions and demand, the vacancy rate should remain relatively low. Asking rents should continue to rise, although at a decelerating pace compared to the heights seen in early 2022. We expect demand to be steady but will likely normalize compared to recent years. E-commerce and service product should fuel demand in the years to come. However, economic uncertainty could pause some consumer spending, thereby softening leasing activity.

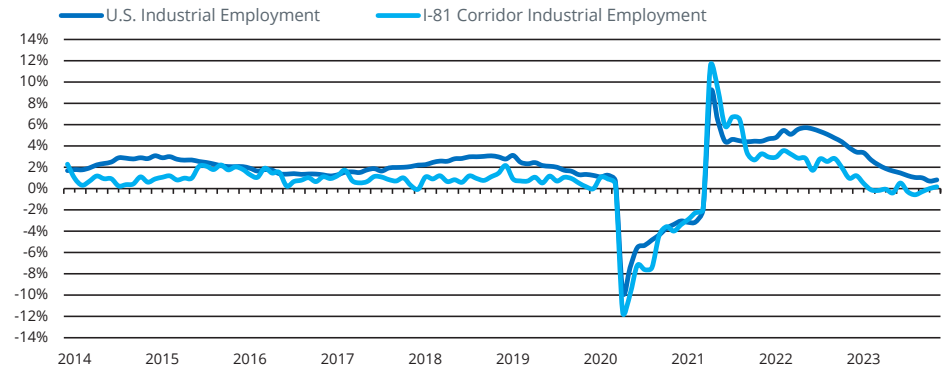


ECONOMY

I-81 Corridor Economy Holds Steady

- 300 new jobs were added to the I-81 Corridor economy during the 12-months ending in November 2023. This marks the first year-over-year total since June 2023 to be net positive. This gain is also below the pre-COVID average of 1,700 jobs.
- The transportation, warehousing, and utilities sector added 200 of these jobs year-over-year.
- The unemployment rate in the I-81 Corridor is currently at 3.0% in October 2023 which is on par with the average over the past three months. The rate has improved significantly from the peak of 11.8% in April 2020. Washington County, MD has the lowest unemployment rate at 2.4%.
- We expect industrial-using job growth in the I-81 Corridor to remain steady over the next five years. Growth should be concentrated within local delivery/distribution services and manufacturing.

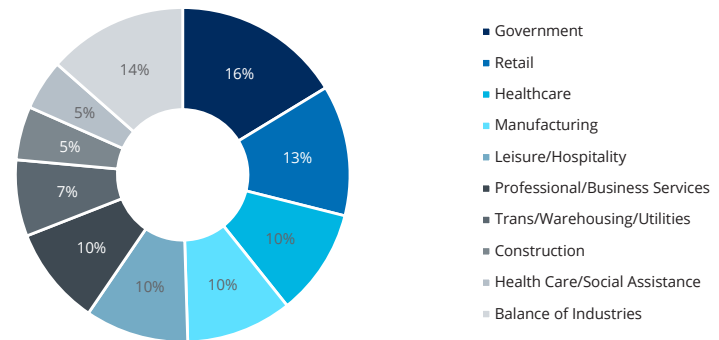
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

I-81 Corridor | 2023



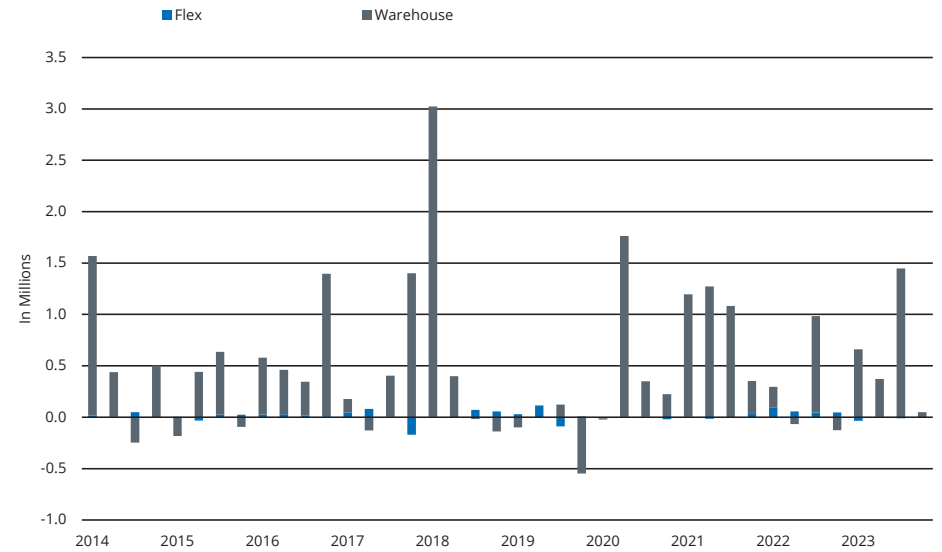
Source: Lightcast, Transwestern

NET ABSORPTION

Industrial Market Closes Out 2023 with Healthy Absorption

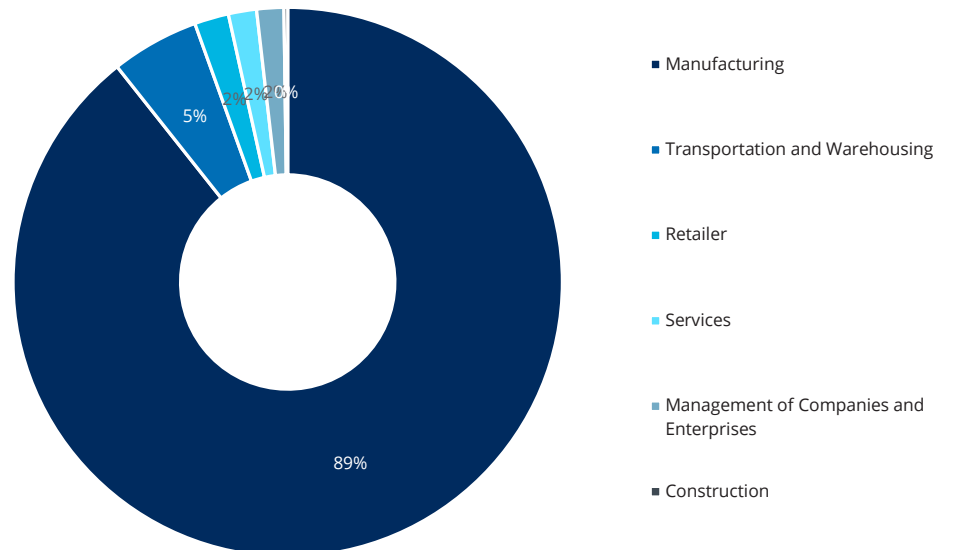
- The I-81 Corridor industrial market slightly strengthened in the fourth quarter with positive 50,000 SF of net absorption. However, this marks the lowest quarterly absorption in 2023. For the entirety of 2023, net absorption totaled a healthy 2.5 million SF.
- The largest transaction of the quarter was a pre-lease, which does not impact net absorption until delivery. Conair Corporation pre-leased 2.1 million SF at 10440 Downsville Pike in Washington County, MD. A notable transaction that occurred was AD Engineering inking a 44,920 SF deal at 1133 Wissler Road in Shenandoah County, VA. This was counteracted by Kirkland's vacating 63,000 SF at 101 Prospect Road in Frederick County, VA.
- Frederick County, VA was the largest source of negative absorption totaling 63,000 SF, due to the aforementioned move-out. The largest source of positive absorption was Washington County, MD which totaled 69,000 SF and driven by smaller deals.
- We anticipate net absorption to remain positive throughout 2024 as the industrial market remains relatively tight. Although rents have escalated, leasing and availability are attractive within the I-81 Corridor.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY SUBMARKET YTD 2023



Source: CoStar, Transwestern

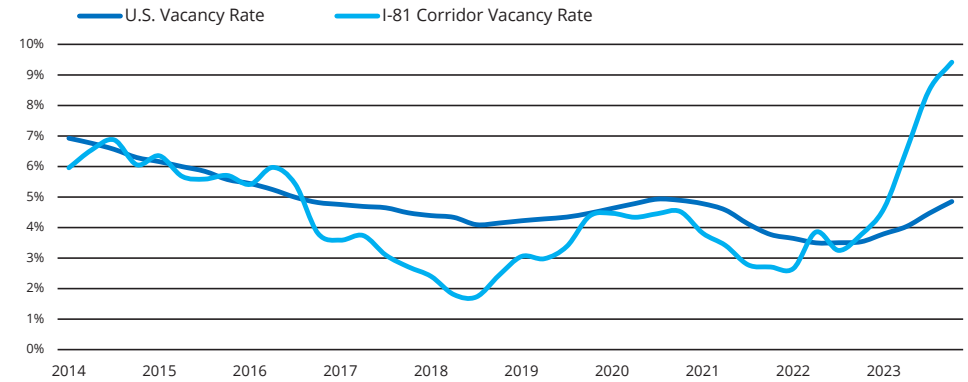


VACANCY

Vacancy Rate Edges Up In Q4

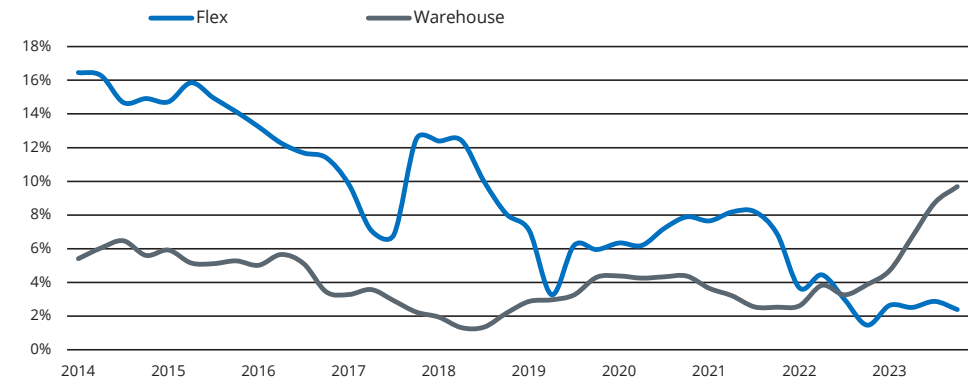
- The industrial market direct vacancy rate increased by 90-basis points to 9.4% in the quarter. This is a sharp increase from the fourth quarter of 2022, which totaled 3.8%.
- Flex properties slightly strengthened in the quarter as the vacancy rate edged down 10-basis points to 2.7%. Warehouse properties struggled as the vacancy rate increased 90-basis points to 9.6%.
- Frederick County, VA holds the lowest vacancy rate in the corridor, totaling 1.0%. Washington County, MD had the largest vacancy rate increase, rising by 130-basis points to 16.9%, driven primarily by the delivery of 217 S. Edgewood Drive, which added 1.6 million SF of vacant product to the market.
- The vacancy rate is likely to continue to fluctuate as large construction projects that have low pre-leasing will hit the market in 2024 but should be leased quickly due to the demand for high-quality industrial product.

DIRECT VACANCY RATE



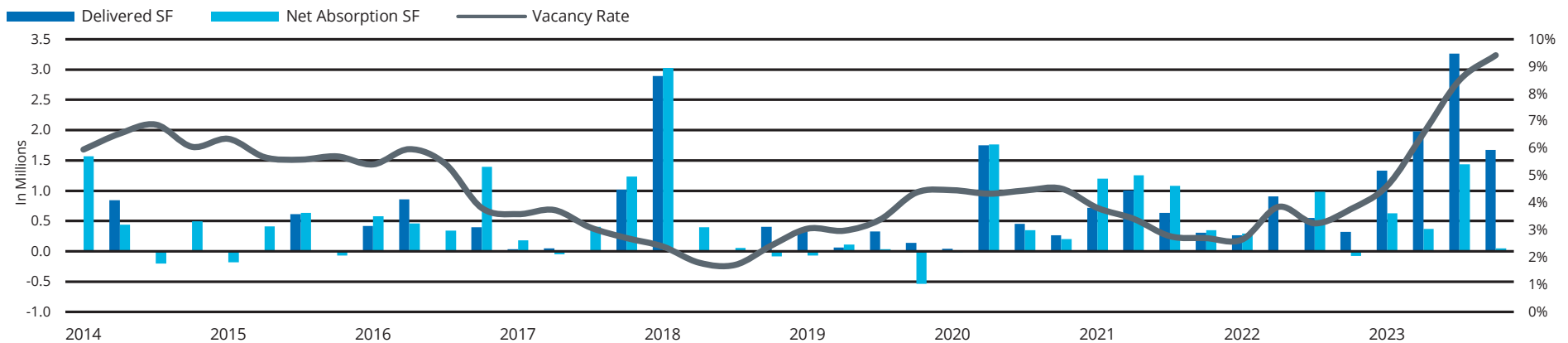
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

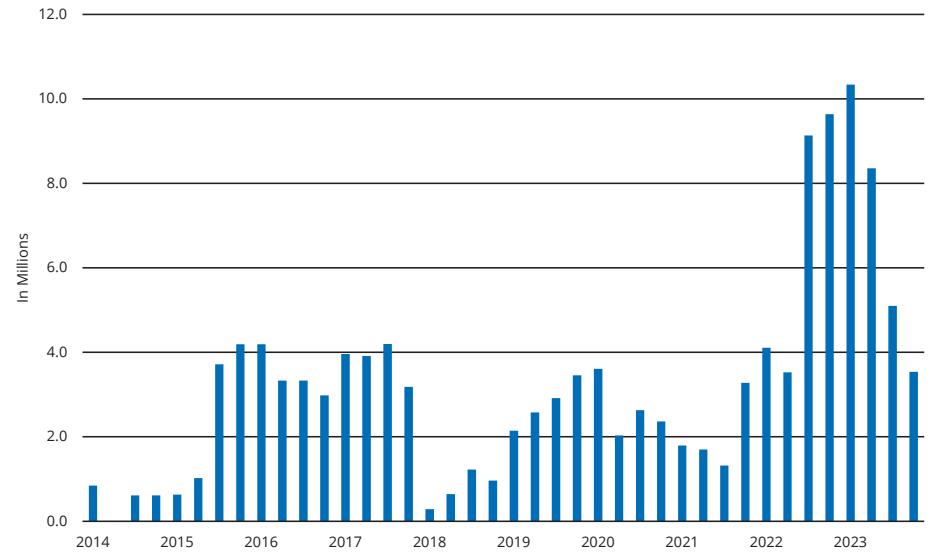


UNDER CONSTRUCTION

Construction Pipeline Remains Strong with Large-Scale Projects

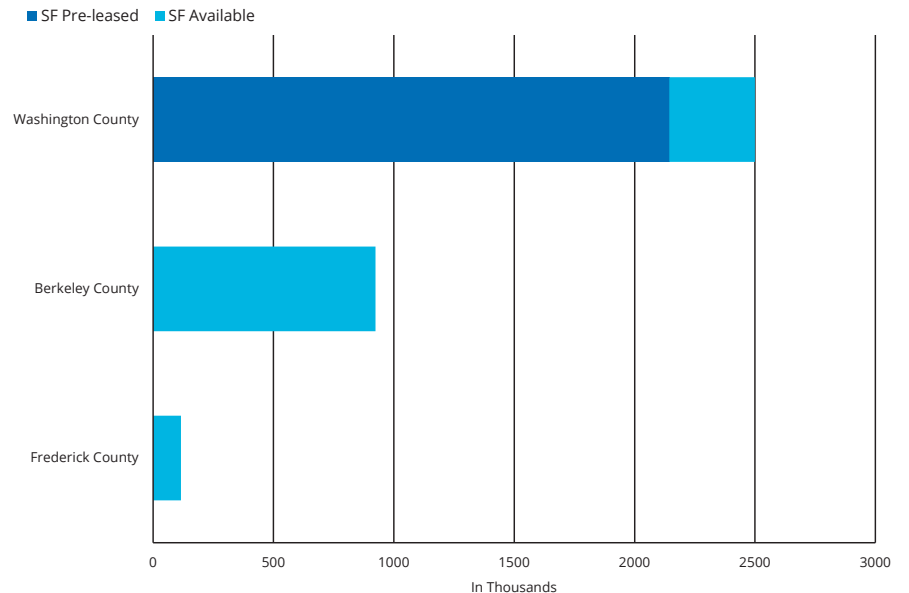
- One project delivered in the fourth quarter, 217 S Edgewood Drive – Building 1 in Washington County, MD, which totals 1.6 million SF and is 0% pre-leased.
- The current pipeline has 3.5 million SF under construction with 61% pre-leased across five projects. The largest project underway is 10440 Downsville Pike in Washington County, MD which will total 2.1 million SF and is 100% pre-leased by Conair Corporation.
- There was one addition to the pipeline this quarter, 371 Admiral Byrd Drive in Frederick County, VA which totals 116,000 SF and is currently 0% pre-leased.
- All five of the current projects are anticipated to be delivered in 2024, with two anticipated to deliver in the first quarter of the year, 217 S Edgewood Drive – Building 2 and 5031 Winchester Avenue – Building C, which are both 0% pre-leased and total 356,000 SF and 860,720 SF, respectively.
- We expect construction levels to potentially lessen 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

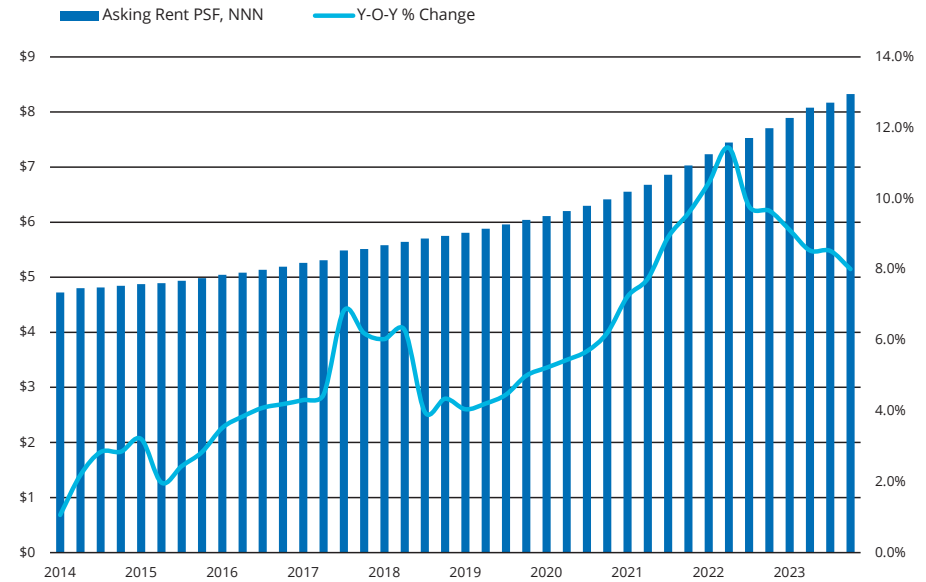


RENTAL RATES

Asking Rent Maintain Strong Growth Throughout 2023

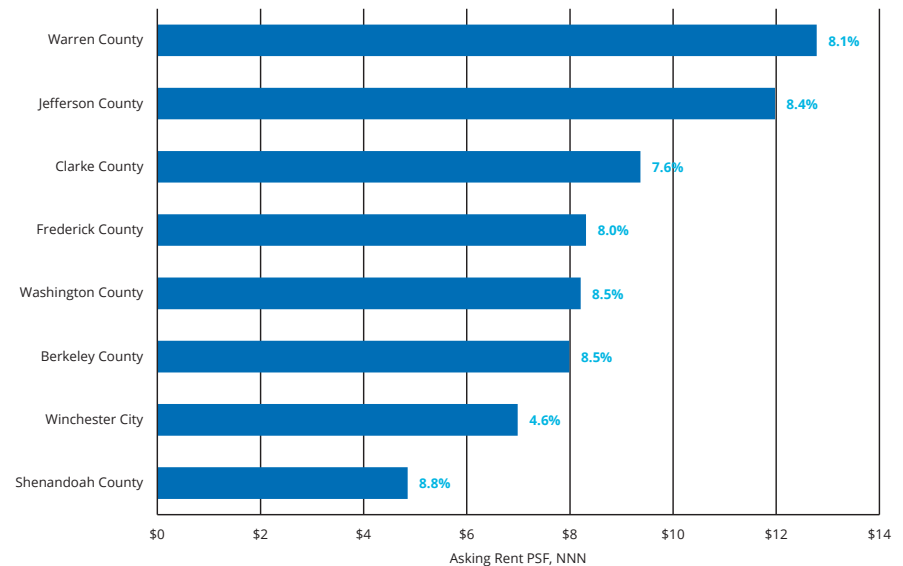
- Asking rents rose 190-basis points to \$8.32 PSF in the quarter and 8% year-over-year. Warehouse product rental rates rose 200-basis points to \$8.09 PSF in the quarter while flex product rental rates increased by 60-basis points to \$12.60 PSF.
- Berkeley County, WV and Warren County, VA are tied for the largest quarterly rental rate increase, rising 210-basis points to \$7.99 PSF, and \$12.78 PSF, respectively.
- Warren County, VA has the highest asking rent at \$12.78 PSF and saw an increase of 8.1% year-over-year. While the second highest rates are held by Jefferson County, WV which average \$11.97 PSF and rose 200-basis points in the fourth quarter.
- We expect healthy rent growth to continue in 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

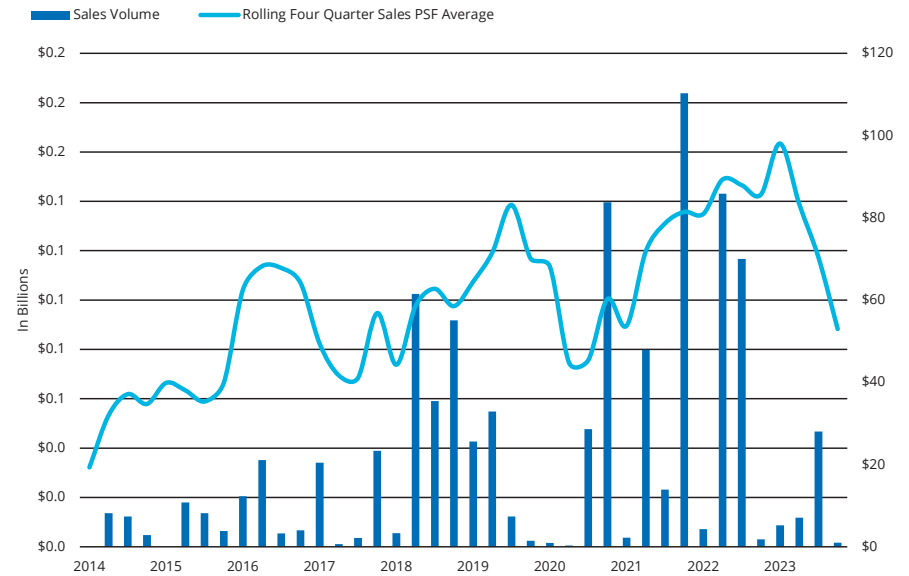


SALES

Industrial Investment Sales Low but Tick Up from Q3

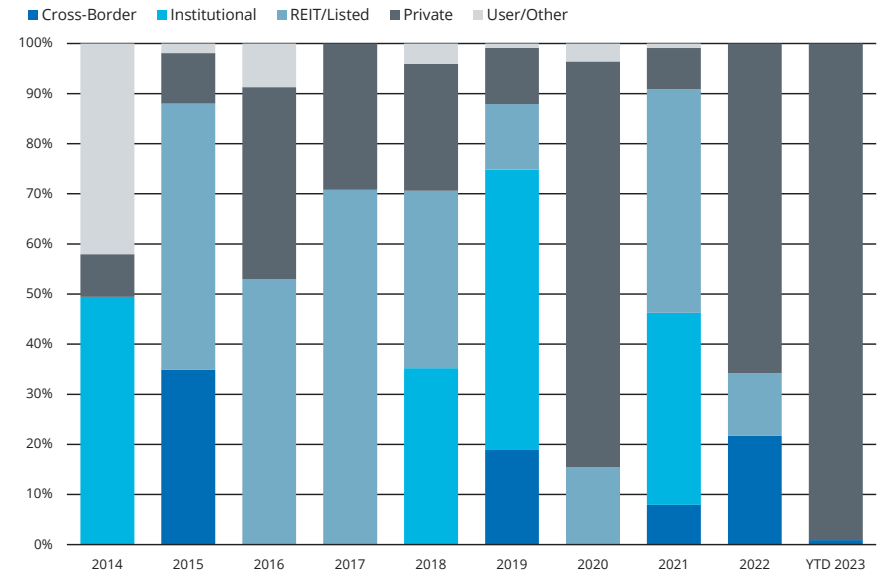
- There were five transactions in the fourth quarter of 2023, totaling \$1.6 million for 133,797 SF, or \$13 PSF. This is the lowest total in 2023, with the previous low being the first quarter that totaled \$8.6 million, or \$59 PSF.
- All five transactions were one portfolio purchased by Spy Rock Real Estate Group which included, 521, 531, & 533 Hillman Drive and 1955 & 1975 Valley Avenue. This sale consisted all warehouse product within Winchester City that are anticipated to be demolished for redevelopment.
- Transaction volume will likely continue to remain low in the throughout early 2024 as investors hold on pursuing industrial product due to economic conditions such as inflation and elevated interest rates.

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
CONAIR CORPORATION	10440 Downsville Pike	Washington County	Pre-Lease	2,144,115
AD ENGINEERING	1133 Wissler Rd	Shenandoah County	New Lease	44,920
YOURS LOGISTICS	2 Western Maryland Pky	Washington County	New Lease	15,033
RENOVATIONS/GENERAL CONTRACTING	508 Kendrick Ln	Warren County	New Lease	1,500

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
533 HILLMAN DR	Winchester City	Nov-23	\$274,988	21,721	\$13	Spy Rock Real Estate Group	Virginia Apple Storage
535 HILLMAN DR	Winchester City	Nov-23	\$380,762	30,076	\$13	Spy Rock Real Estate Group	Virginia Apple Storage
521 HILLMAN DR	Winchester City	Nov-23	\$223,626	17,664	\$13	Spy Rock Real Estate Group	Virginia Apple Storage
1975 VALLEY AVE	Winchester City	Nov-23	\$215,220	17,000	\$13	Spy Rock Real Estate Group	Virginia Apple Storage
1955 VALLEY AVE	Winchester City	Nov-23	\$599,274	47,336	\$13	Spy Rock Real Estate Group	Virginia Apple Storage

Source: CoStar, Real Capital Analytics, Transwestern

MARKET INDICATORS

All Product Types | Q4 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
FLEX	283,691	0	0.0%	0.0%	62,500	0	0	\$11.55
WAREHOUSE	17,314,552	1,827,132	10.6%	10.6%	860,720	0	956,000	\$7.88
BERKELEY COUNTY	17,598,243	1,827,132	10.4%	10.4%	923,220	0	956,000	\$7.99
FLEX	88,000	0	0.0%	0.0%	0	0	0	\$11.91
WAREHOUSE	639,926	68,840	10.8%	10.8%	0	1,000	(69,000)	\$8.43
CLARKE COUNTY	727,926	68,840	9.5%	9.5%	0	1,000	(69,000)	\$9.37
FLEX	846,017	7,088	0.8%	0.8%	0	0	(11,000)	\$19.19
WAREHOUSE	15,718,783	166,524	1.1%	1.1%	116,000	(63,000)	(104,000)	\$7.58
FREDERICK COUNTY	16,564,800	173,612	1.0%	1.0%	116,000	(63,000)	(115,000)	\$8.31
FLEX	0	0	N/A	N/A	0	0	0	\$19.14
WAREHOUSE	2,727,101	0	0.0%	0.0%	0	0	0	\$10.81
JEFFERSON COUNTY	2,727,101	0	0.0%	0.0%	0	0	0	\$11.97
FLEX	126,436	0	0.0%	0.0%	0	0	0	N/A
WAREHOUSE	364,632	0	0.0%	0.0%	0	0	10,000	N/A
PAGE COUNTY	491,068	0	0.0%	0.0%	0	0	10,000	N/A
FLEX	0	0	N/A	N/A	0	0	0	N/A
WAREHOUSE	3,629,997	175,600	4.8%	4.8%	0	45,000	1,000	\$4.85
SHENANDOAH COUNTY	3,629,997	175,600	4.8%	4.8%	0	45,000	1,000	\$4.85
FLEX	50,725	0	0.0%	0.0%	0	0	0	\$9.47
WAREHOUSE	4,668,003	24,700	0.5%	4.1%	0	(2,000)	119,000	\$12.85
WARREN COUNTY	4,718,728	24,700	0.5%	4.0%	0	(2,000)	119,000	\$12.78
FLEX	1,290,857	66,660	5.2%	5.2%	0	0	(33,000)	\$8.36
WAREHOUSE	31,325,916	5,448,796	17.4%	17.4%	2,500,115	69,000	1,669,000	\$8.20
WASHINGTON COUNTY	32,616,773	5,515,456	16.9%	16.9%	2,500,115	69,000	1,636,000	\$8.21
FLEX	405,131	0	0.0%	0.0%	0	0	1,000	\$11.09
WAREHOUSE	3,775,296	53,269	1.4%	1.4%	0	0	(52,000)	\$6.20
WINCHESTER CITY	4,180,427	53,269	1.3%	1.3%	0	0	(51,000)	\$6.99
FLEX	3,217,293	73,748	2.3%	2.3%	62,500	0	(43,000)	\$12.60
WAREHOUSE	80,528,838	7,764,861	9.6%	9.8%	3,476,835	50,000	2,540,000	\$8.09
I-81 CORRIDOR TOTAL	83,255,063	7,838,609	9.4%	9.6%	3,539,335	50,000	2,487,000	\$8.32

Source: CoStar, Transwestern



RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located along the I-81 Corridor, spanning Virginia, West Virginia, and Maryland. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding data centers, biotech buildings, and government-owned assets.

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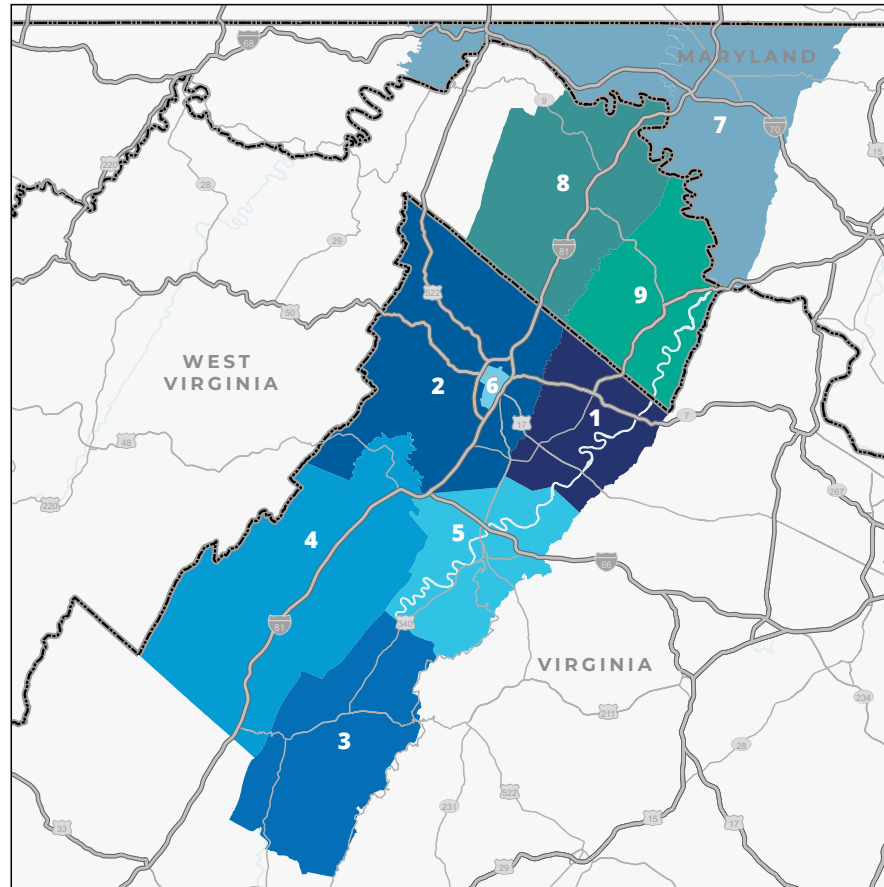
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I-81 Corridor North Industrial Submarkets

- 1 Clarke County (VA)
- 2 Frederick County (VA)
- 3 Page County (VA)
- 4 Shenandoah County (VA)
- 5 Warren County (VA)
- 6 Winchester County (VA)
- 7 Washington County (MD)
- 8 Berkeley County (WV)
- 9 Jefferson County (WV)