

SUBURBAN MARYLAND INDUSTRIAL MARKET

Q4 2023



TRENDLINES

| | Q4 2023 | Q4 2022 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|-------------------------------|---------|---------|----------------|-------------------|-------------------|
| UNEMPLOYMENT RATE | 2.1 | 4.2 | ↓ | 5.2 | ↓ |
| NET ABSORPTION (THOUSANDS SF) | 319.0 | 354.0 | ↓ | 299.8 | ↑ |
| DIRECT VACANCY RATE | 3.6% | 3.0% | ↑ | 5.1% | ↓ |
| DIRECT VACANT SF (MSF) | 3.5 | 2.8 | ↑ | 4.3 | ↓ |
| UNDER CONSTRUCTION (MSF) | 2.5 | 2.7 | ↓ | 1.6 | ↑ |
| ASKING RENT, NNN (PSF) | \$15.79 | \$14.65 | ↑ | \$12.93 | ↑ |
| SALES VOLUME (MILLIONS) | \$24.4 | \$28.3 | ↓ | \$100.2 | ↑ |

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

INDUSTRIAL MARKET CLOSES 2023 STRONG

Suburban Maryland industrial market conditions were strong during the fourth quarter of 2023 with 319,000 SF of positive net absorption driven mostly by larger lease signings. The direct vacancy rate decreased 10 basis points to 3.6%. Asking rents rose 2.1% over the past three months to \$15.79 PSF and are up 7.7% over the year, as heightened demand and a low vacancy rate continues to increase prices.

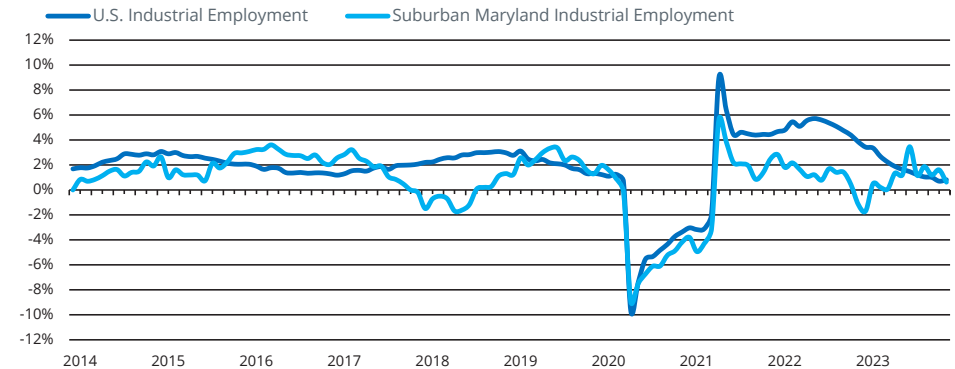
We expect the vacancy rate will remain low enough in 2024 to push rents up, albeit at a slowing pace. Demand for industrial space should remain strong over the next 12 months, but will likely normalize compared to recent years. E-commerce and service product should fuel demand in the years to come. However, economic uncertainty could pause some consumer spending, thereby softening leasing activity.

ECONOMY

Industrial Job Growth Remains Healthy but Decelerating

- 7,200 new jobs were added to the Suburban Maryland economy during the 12-months ending November 2023, which is below the pre-pandemic 5-year average of 9,900. This was driven by health care, educational services, and state/local government sectors.
- Industrial-using jobs added 900 new positions during the 12 months ending November 2023, which is behind the pre-pandemic 5-year average of 2,300. Most of the growth during the past year occurred within the construction sector.
- The unemployment rate in Suburban Maryland is currently at 2.2% in October 2023 which is just above 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 1.9%.
- We expect industrial-using job growth in Suburban Maryland to remain steady over the next five years. Growth should be concentrated within local delivery/distribution services and pharmaceutical manufacturing.

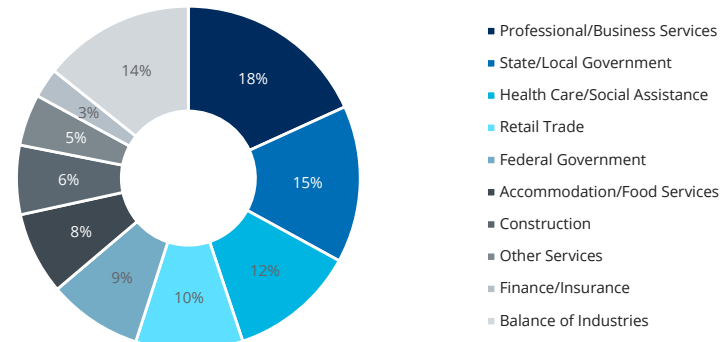
Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

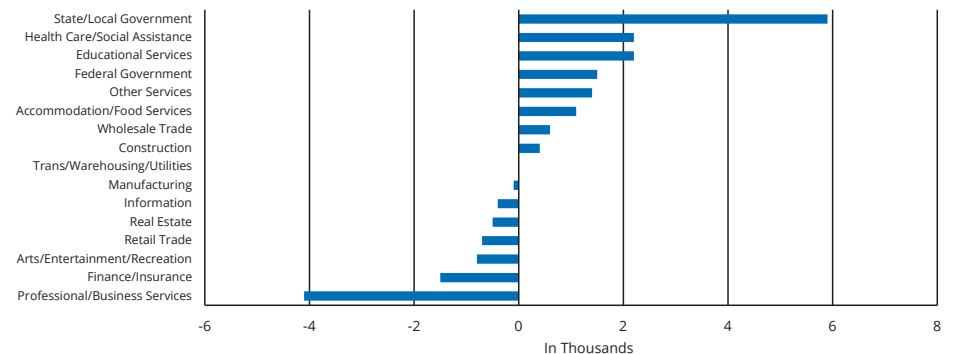
Suburban Maryland | November 2023



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN JOBS BY INDUSTRY

Suburban Maryland



Source: Bureau of Labor Statistics, Transwestern

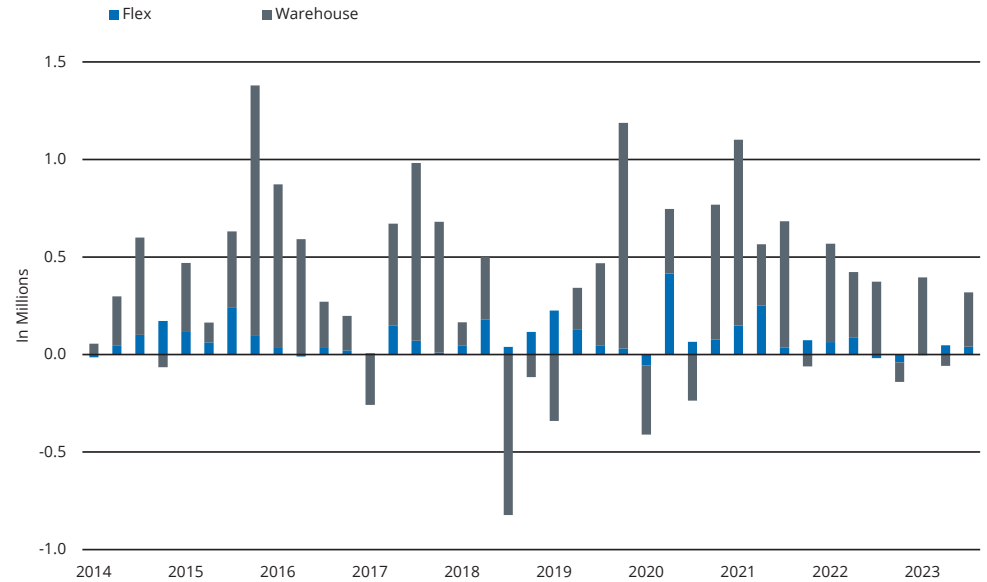


NET ABSORPTION

Frederick County Outperforms in Q4

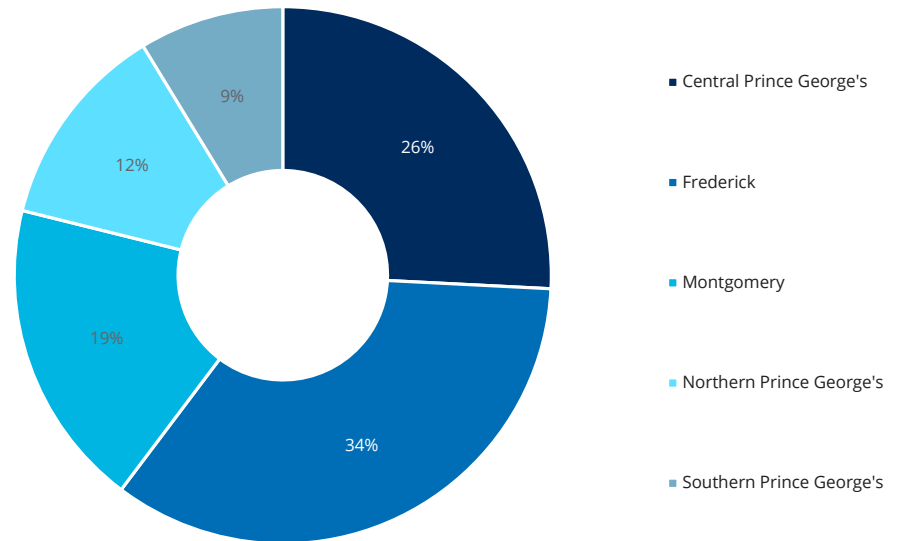
- Net absorption totaled positive 319,000 SF during the fourth quarter of 2023, after totaling negative 11,000 SF during the third quarter of 2023.
- Frederick County had the strongest net absorption for the quarter with 334,000 SF and 662,000 SF year-over-year.
- One of the largest deals of the quarter was an undisclosed tenant executing a 32,500 SF lease at 5304 Kings Court in Frederick County. Another notable deal was Lynn Wholesale Floors inking a 20,000 SF deal at 101380-10140 Bacon Drive in Northern Prince George's County.
- Countering this positive net absorption slightly were a couple of mid-sized move outs that occurred over the quarter. An undisclosed tenant vacated 41,966 SF at 6900 English Muffin Way in Frederick County. Another notable moveout was Designer Surfaces vacating 17,550 SF at 4959 New Design Road in Frederick County.
- We expect net absorption to remain healthy in 2024. However, a potential pull back in consumer spending due to economic uncertainty could limit leasing and thereby soften net absorption.

NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

SHARE OF LEASING ACTIVITY BY SUBMARKET YTD 2023



Source: CoStar, Transwestern

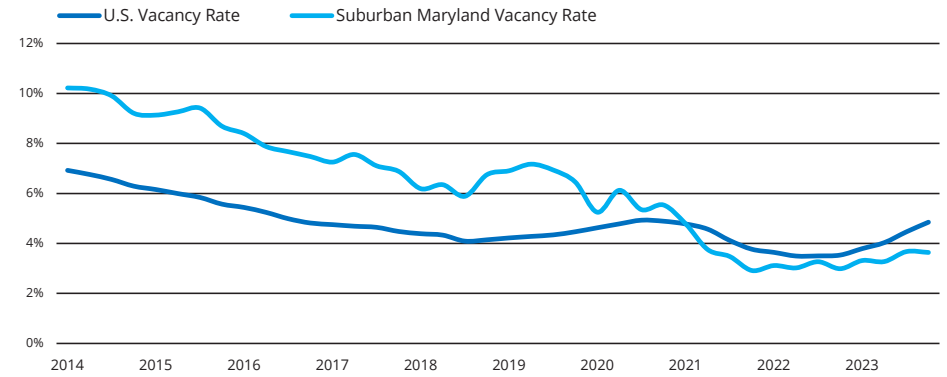


VACANCY

Vacancy Rate Inches Down Slightly in Q4

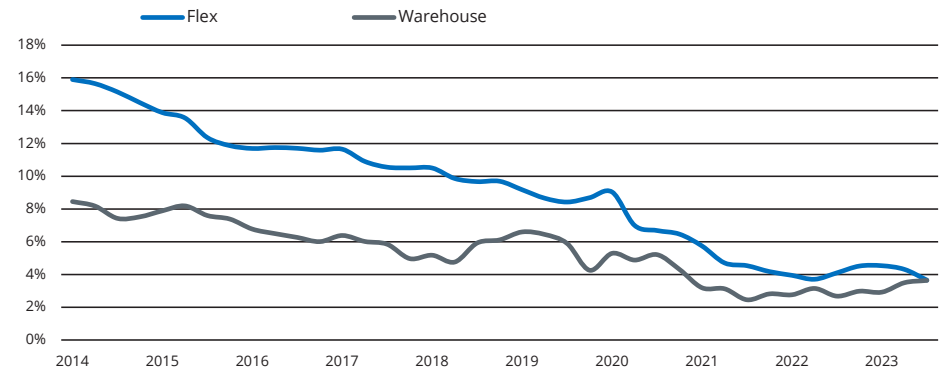
- The direct vacancy rate decreased 10 basis points during the quarter to 3.6% at December 2023, but is up from 3.0% one year ago.
- Frederick County holds the highest vacancy rate at 5.4%, which increased 200 basis points from last quarter, which was due in part to deliveries coming online with vacant space. Northern Prince George’s County followed at 4.3% which is a 60-basis point decrease from last quarter.
- Southern Prince George’s County’s flex product direct vacancy rate is the lowest of the quarter sitting at 0.6%, down from 1.8% last quarter due to limited supply followed by Northern Prince George’s County flex product which finished the quarter with a 2.0% direct vacancy rate, a 50-basis point increase from last quarter.
- The vacancy rate should remain stable through 2024. However, if pipeline product delivers without pre-leasing in place, the rate could rise in the short-run.

DIRECT VACANCY RATE



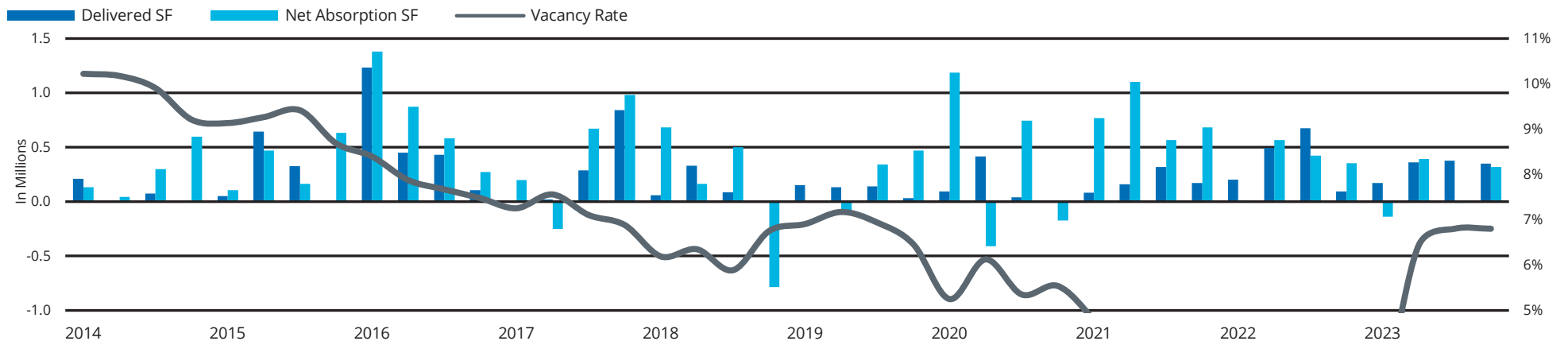
Source: CoStar, Transwestern

DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

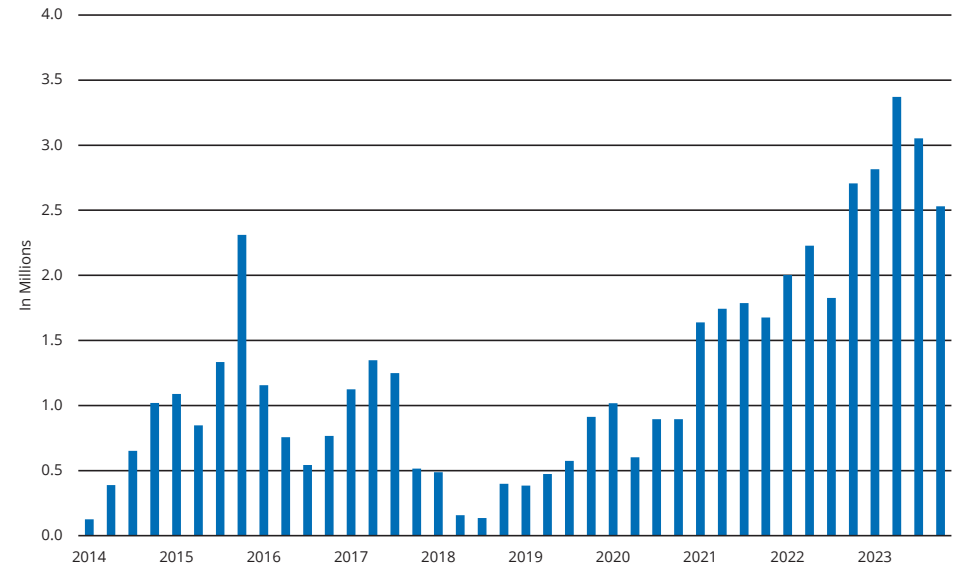


UNDER CONSTRUCTION

Five Projects Deliver in Q4 2023

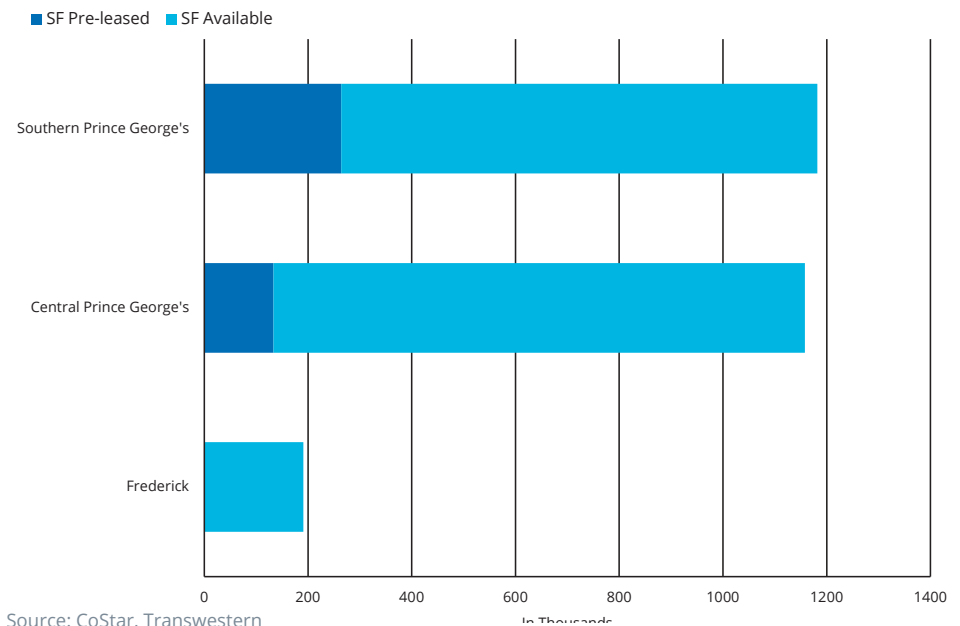
- Five projects delivered during the fourth quarter of 2023, totaling 350,066 SF. These projects came online at 15% pre-leased. The most notable project that delivered was 2300 Craftsman Circle in Northern Prince George’s County which is a 180,000 SF warehouse that delivered fully vacant.
- There is 2.5 million SF under construction at 16% pre-leased as of December 2023. Southern Prince George’s County now has the most construction volume underway with 1.2 million SF.
- The most notable project in the pipeline is 16001 Mattawoman Drive, an 801,500 SF bulk warehouse project in Southern Prince George’s County. The building, with a 40-foot ceiling height, is expected to deliver by 2025. Another notable project in Central Prince George’s County is 6400 Sheriff Road, a 133,200 SF warehouse, which was recently fully pre-leased to an undisclosed tenant and expected to deliver in 2024.
- Future groundbreakings could quell slightly in 2024, due to increased construction costs and lead times, as well as zoning issues which might deter select developers.

UNDER CONSTRUCTION



Source: CoStar, Transwestern

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

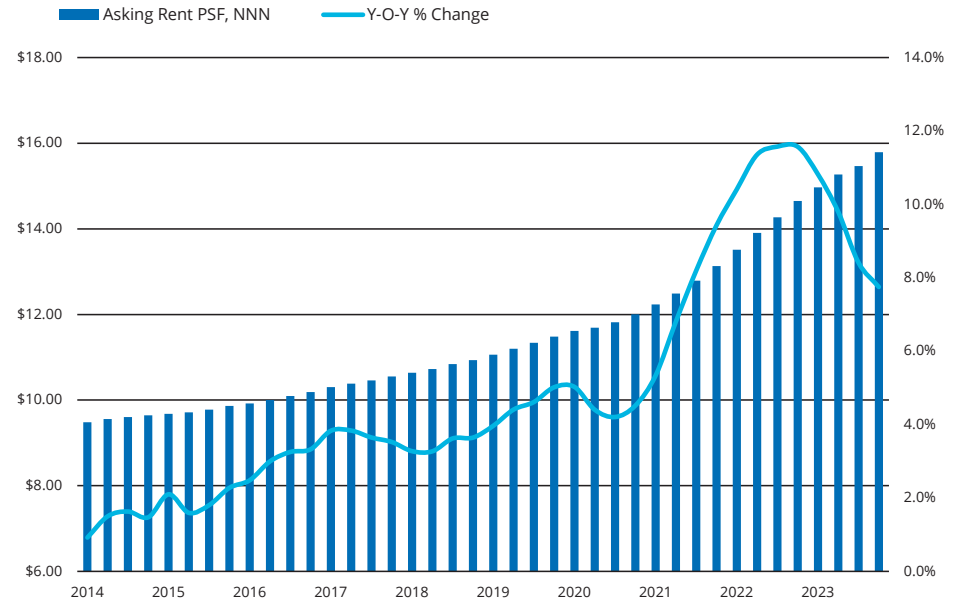


RENTAL RATES

With Excess Demand, Rents Continue to Increase

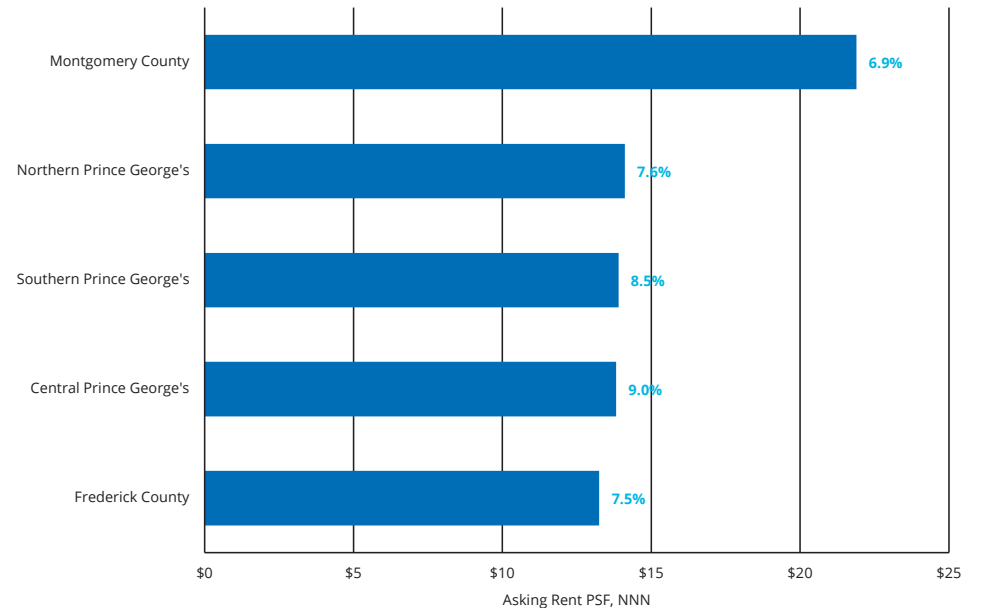
- Industrial asking rents increased 2.1% during the fourth quarter of 2023, landing at \$15.79 PSF. Rent growth remains strong at 7.7% year-over-year.
- Rents increased for warehouse during the quarter by 2.3%, settling at \$14.71 PSF. Flex rose 1.6% to \$18.60 PSF during the quarter.
- Rents continue to increase across all submarkets, with Prince George’s County Central achieving the highest increase, with asking rates finishing the quarter at \$13.82 PSF, up 9.0% 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

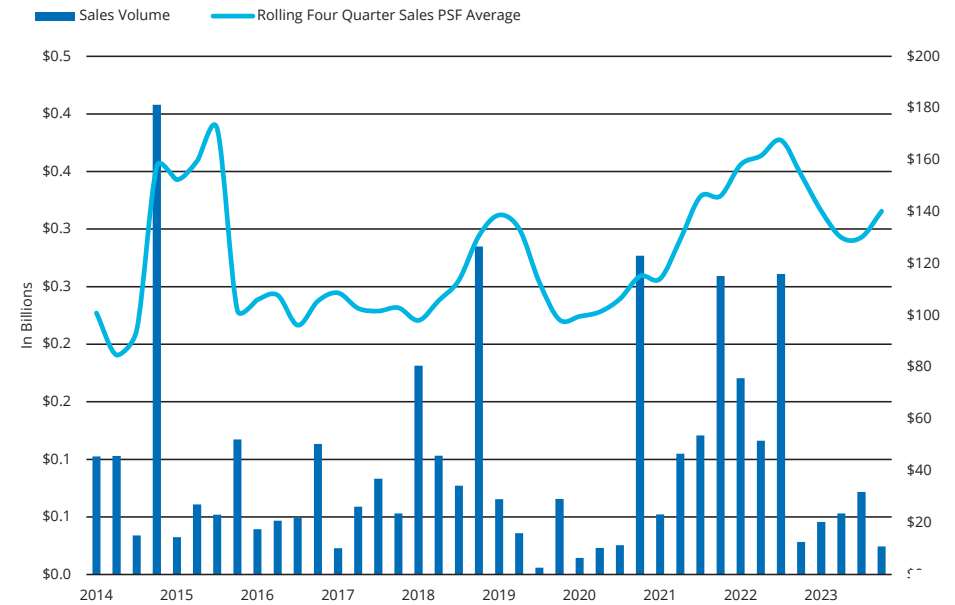


SALES

Sales Volume Still Limited in Q4

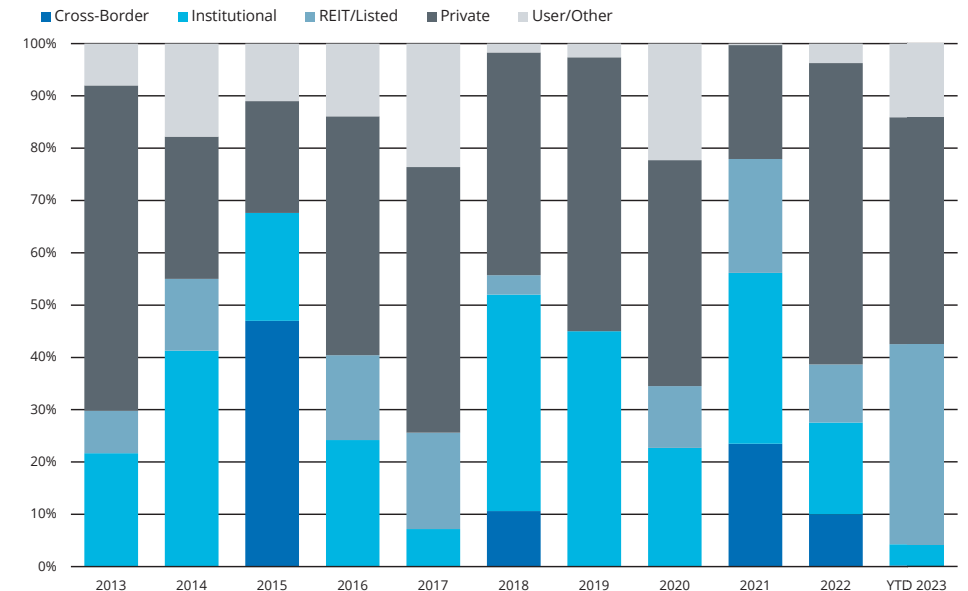
- Investment sales totaled \$24.4 million or \$222 PSF during the fourth quarter of 2023 on two transactions. This compares to nine transactions at \$71.7 million or \$131 PSF during the third quarter of 2023.
- While transaction volume remains low, this is the highest price per square foot value of the year. The next closest PSF value was last quarter which finished at \$131 PSF.
- One deal to highlight during the quarter was at 1011 E Gude Drive in Montgomery County. The Mavern Group purchased this 79,642 SF light distribution flex asset from Berkley Partners for \$16.4 million or \$206 PSF. This asset was fully occupied at the time of the sale.
- We expect investment sales volume to remain steady but limited through 2024 as investors remain cautious of market conditions and lenders continue to pull back and take even less risk until the market settles.

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 |
|---|-----------------------|--------------------------|-----------|-----------|
| FULCRUM INTERNATIONAL | 8520 Rainswood Dr | Central Prince George's | Renewal | 40,000 |
| POWER SOLUTIONS | 4754 Arcadia Dr | Frederick | New Lease | 21,000 |
| GC ENTERPRISES | 5137-5139 Lawrence Pl | Northern Prince George's | New Lease | 19,000 |
| SCAFFOLD RESOURCES | 4816-4881 Walden Ln | Central Prince George's | New Lease | 16,368 |
| STEPHENS ENTERPRISES INC. DBA PALLET MASTERS | 5200 Lawrence Pl | Northern Prince George's | New Lease | 14,600 |
| ALLIANT INSURANCE SERVICES | 9901 Business Pky | Central Prince George's | Renewal | 8,811 |

= Transwestern deal
 Source: CoStar, CompStak, Transwestern.

NOTABLE SALES

| ADDRESS | SUBMARKET | SALE DATE | SALES PRICE | BUILDING SF | PRICE PSF | BUYER | SELLER |
|--------------------------------|--------------------------|-----------|--------------|-------------|-----------|------------------------------|-------------------------------|
| 7495 NEW TECHNOLOGY WAY | Frederick | Nov-23 | \$8,000,000 | 30,428 | \$263 | Patriot Medical Laboratories | EMINENT Services Corporation |
| 1011 E GUDE DR | Montgomery | Oct-23 | \$16,400,000 | 79,642 | \$206 | The Maven Group | Berkeley Partners |
| 11844-11882 COAKLEY CIR | Montgomery | Sep-23 | \$5,967,892 | 40,768 | \$146 | Polinger Co. | Link Logistics Real Estate |
| 11800-11836 COAKLEY CIR | Montgomery | Sep-23 | \$5,882,108 | 40,182 | \$146 | Polinger Co. | Link Logistics Real Estate |
| 7201 MCKINNEY CIR | Frederick | Sep-23 | \$6,550,000 | 89,229 | \$73 | Ruppert Properties | Transom Capital Group LLC |
| 3401 52ND AVE | Northern Prince George's | Aug-23 | \$4,000,000 | 29,489 | \$136 | Ashraf Mohammad | Catholic Diocese of Arlington |

= Transwestern deal
 Source: CoStar, CompStak, Transwestern.

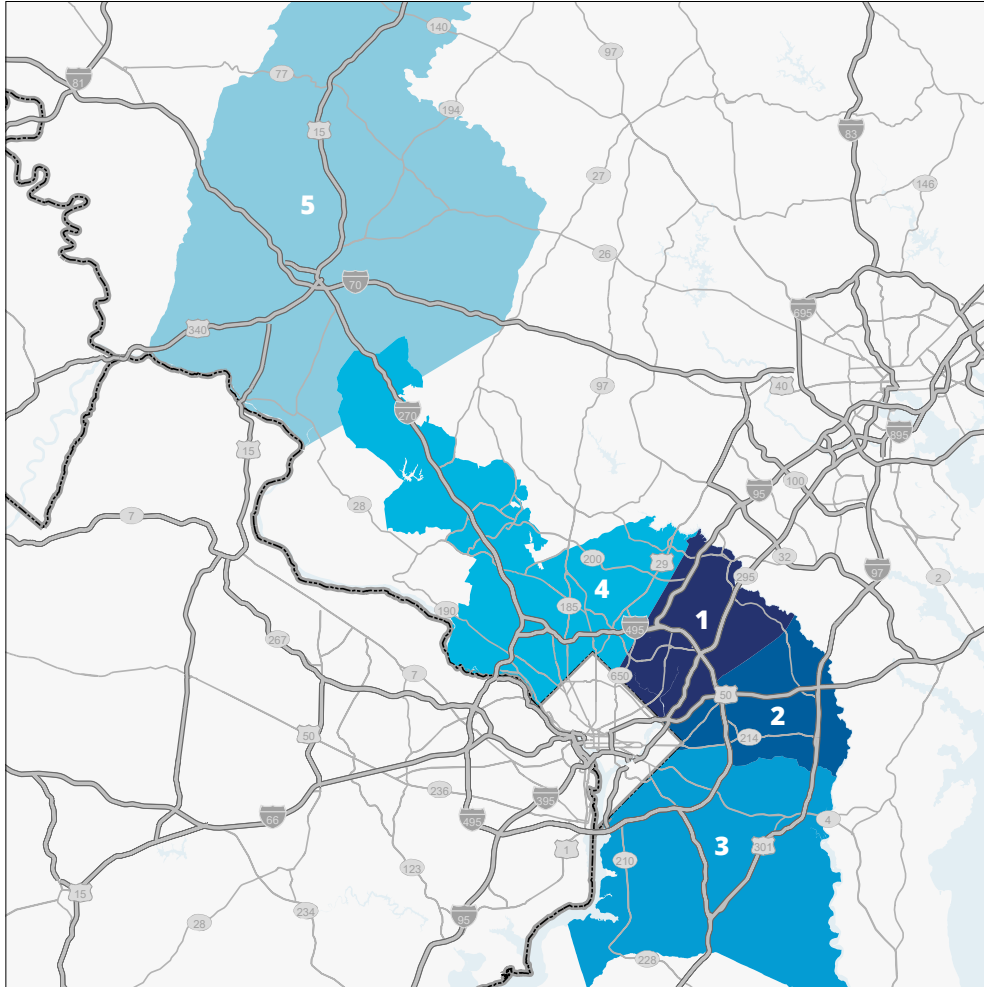


MARKET INDICATORS

All Classes of Space | 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 | 3,687,938 | 75,525 | 2.0% | 3.9% | 0 | (9,000) | 8,000 | \$15.09 |
| WAREHOUSE | 15,723,424 | 753,834 | 4.8% | 4.8% | 0 | 45,000 | (230,000) | \$13.85 |
| NORTHERN PRINCE GEORGES' | 19,411,362 | 829,359 | 4.3% | 4.6% | 0 | 36,000 | (222,000) | \$14.11 |
| FLEX | 3,847,095 | 117,611 | 3.1% | 3.1% | 59,640 | 22,000 | 36,000 | \$14.86 |
| WAREHOUSE | 23,944,120 | 552,217 | 2.3% | 3.0% | 1,098,252 | (34,000) | (102,000) | \$13.65 |
| CENTRAL PRINCE GEORGE'S | 27,791,215 | 669,828 | 2.4% | 3.0% | 1,157,892 | (12,000) | (66,000) | \$13.82 |
| FLEX | 961,132 | 5,740 | 0.6% | 0.6% | 0 | 1,000 | (5,000) | \$15.31 |
| WAREHOUSE | 8,154,455 | 238,770 | 2.9% | 9.8% | 1,182,024 | (14,000) | 218,000 | \$13.73 |
| SOUTHERN PRINCE GEORGE'S | 9,115,587 | 244,510 | 2.7% | 8.8% | 1,182,024 | (13,000) | 213,000 | \$13.90 |
| FLEX | 7,698,035 | 330,097 | 4.3% | 4.9% | 0 | (15,000) | (80,000) | \$23.08 |
| WAREHOUSE | 12,709,227 | 381,089 | 3.0% | 3.1% | 0 | (11,000) | 48,000 | \$20.00 |
| MONTGOMERY COUNTY | 20,407,262 | 711,186 | 3.5% | 3.8% | 0 | (26,000) | (32,000) | \$21.89 |
| FLEX | 4,672,062 | 233,860 | 5.0% | 5.1% | 55,002 | 41,000 | 82,000 | \$14.07 |
| WAREHOUSE | 14,064,512 | 786,230 | 5.6% | 5.8% | 136,106 | 293,000 | 580,000 | \$12.85 |
| FREDERICK COUNTY | 18,736,574 | 1,020,090 | 5.4% | 5.6% | 191,108 | 334,000 | 662,000 | \$13.25 |
| FLEX | 20,866,262 | 762,833 | 3.7% | 4.2% | 114,642 | 40,000 | 41,000 | \$18.60 |
| WAREHOUSE | 74,595,738 | 2,712,140 | 3.6% | 4.7% | 2,416,382 | 279,000 | 514,000 | \$14.71 |
| TOTAL | 95,462,000 | 3,474,973 | 3.6% | 4.6% | 2,531,024 | 319,000 | 555,000 | \$15.79 |

Source: CoStar, Transwestern



Suburban Maryland Industrial Submarkets

- 1** Northern PG County
- 2** Central PG County
- 3** Southern PG County
- 4** Montgomery County
- 5** Frederick County

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on flex and industrial properties located in Suburban Maryland. This report includes single tenant, multi-tenant and owner-user properties 15,000 SF and larger, excluding data centers, biotech, and properties owned by a government agency.

FOR MORE INFORMATION

Elizabeth Norton

Senior Managing Research Director
Research Services
Elizabeth.Norton@transwestern.com
202-775-7026

Jared Reinson

Research Analyst
Research Services
Jared.Reinson@transwestern.com
202-775-7030

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