

# NORTHERN VIRGINIA INDUSTRIAL MARKET

Q4 2023



## TRENDLINES

	Q4 2023	Q4 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	2.6	2.4	↑	3.3	↓
NET ABSORPTION (THOUSANDS SF)	210.0	1127.0	↓	481.0	↑
DIRECT VACANCY RATE	3.8%	3.4%	↑	4.4%	↓
DIRECT VACANT SF (MSF)	4.0	3.5	↑	4.4	↓
UNDER CONSTRUCTION (MSF)	1.2	2.1	↓	1.9	↑
ASKING RENT, NNN (PSF)	\$17.21	\$16.07	↑	\$14.31	↑
SALES VOLUME (MILLIONS)	\$154.3	\$323.7	↓	\$179.1	↑

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

## INDUSTRIAL MARKET HAS MIXED RESULTS IN FOURTH QUARTER

The Northern Virginia industrial market, when included with Spotsylvania/Stafford, totals 105.7 million SF. Net absorption ended the year with positive 210,000 SF in the fourth quarter. Conversely, the direct vacancy rate edged-up 20-basis points to 3.8% as new product coming online delivered with vacant space. Isolating just Northern Virginia without Spotsylvania/Stafford, the vacancy rate landed at 3.5% at year-end. Given the chronically low vacancy rate, asking rental rates increased 1.8% for the quarter, averaging \$17.21 PSF, with a 7.1% increase year-over-year.

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.

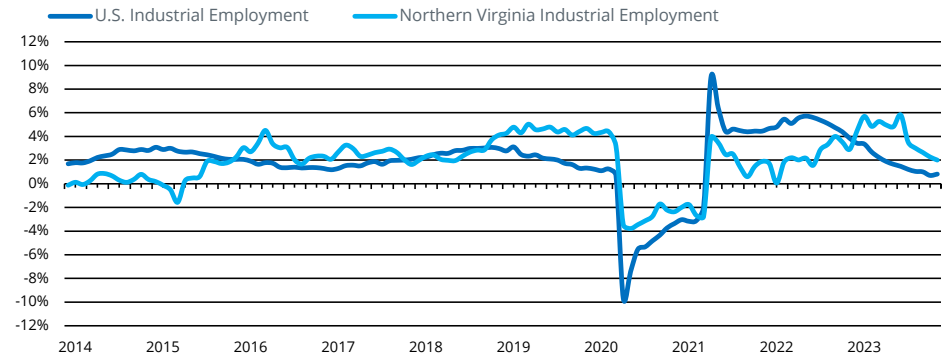


### ECONOMY

#### Industrial-Using Job Growth Continues to Temper

- 24,500 new jobs were added to the Northern Virginia economy during the 12-months ending in November 2023. The industry sector that experienced the largest growth was healthcare which added 8,400 new jobs in that timespan.
- Industrial-using jobs added 3,900 new jobs to the market in the 12-months ending in November 2023, while still positive this marks the fifth quarter in a row where year-over-year job growth decelerated. The transportation, warehousing, and utilities sector performed the strongest by adding 2,100 new jobs to the market.
- The unemployment rate in Northern Virginia is 2.6% in October 2023 and averaged 2.7% over the past three months. Arlington County has the lowest unemployment rate in Northern Virginia, at 2.2%.
- We expect industrial-using jobs in Northern Virginia to continue to grow throughout 2024. Most of this growth will occur within mail courier/delivery and manufacturing sectors.

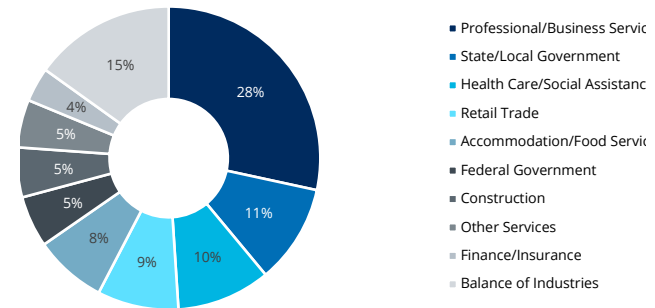
### Y-O-Y CHANGE IN INDUSTRIAL JOBS



Source: Bureau of Labor Statistics, Transwestern

### SHARE OF EMPLOYEES BY INDUSTRY

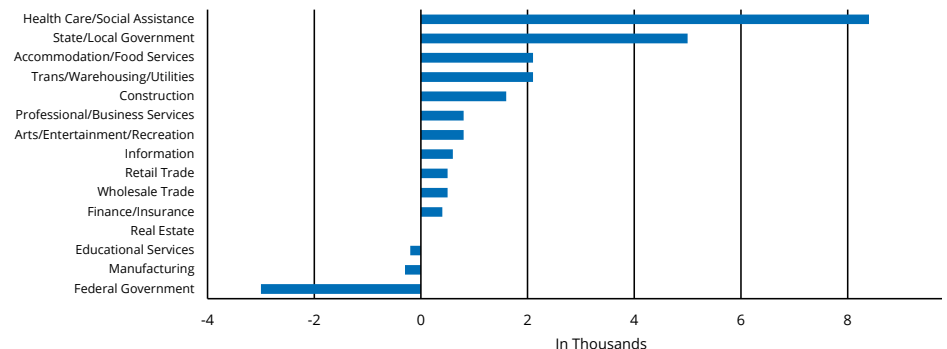
Northern Virginia | November 2023



Source: Bureau of Labor Statistics, Transwestern

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

Northern Virginia



Source: Bureau of Labor Statistics, Transwestern

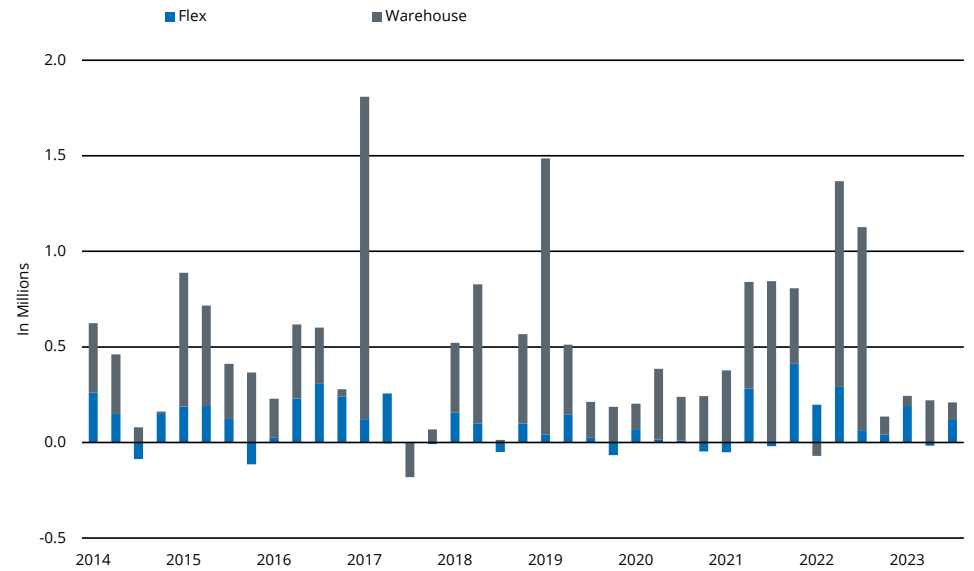


### NET ABSORPTION

#### Industrial Market Absorption Maintains Growth

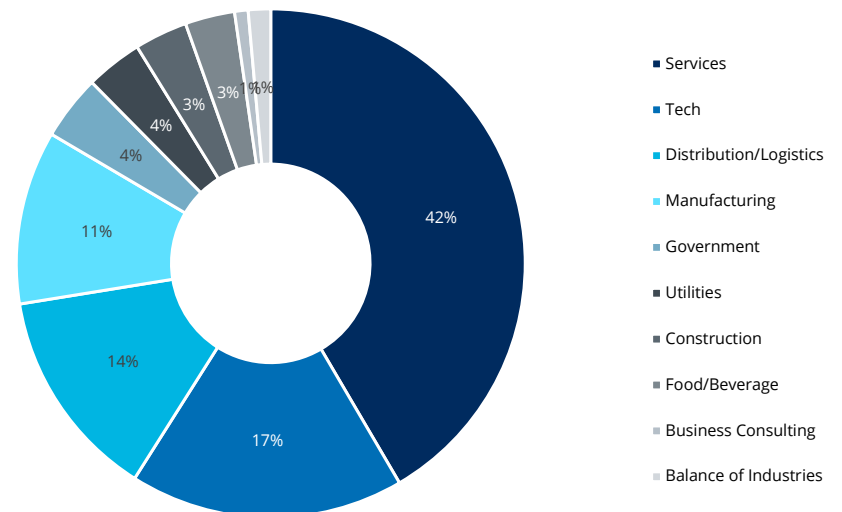
- The industrial market strengthened in the fourth quarter, totaling 210,000 SF of positive absorption. This marks all quarters in 2023 totaling positive absorption, with the year total achieving positive 795,000 SF.
- Notable transactions included NJ Sullivan taking 81,691 SF at 7315 Groveton Road in Manassas/Gainesville. Also 7201 Lockport LLC occupied their 67,300 SF building at 7201 Lockport Place in the I-95 Corridor.
- Manassas/Gainesville was the largest source of positive absorption, mainly aided the NJ Sullivan leasing transaction at 7315 Groveton Road. However, this was also drive by an owner-occupier, DST Chantilly, taking 25,000 SF at 9208 Enterprise Court. The Beltway (I-495) was the sole submarket with negative absorption, totaling 29,000 SF negative. This was driven by smaller-scale move-outs with minimal leasing transactions to counter.
- We anticipate net absorption to continue trending positive throughout 2024 as demand for industrial product remains high, however a tight market may limit large-scale lease signings.

### NET ABSORPTION BY PRODUCT TYPE



Source: CoStar, Transwestern

### SHARE OF LEASING ACTIVITY BY INDUSTRY YTD 2023



Source: CoStar, Transwestern

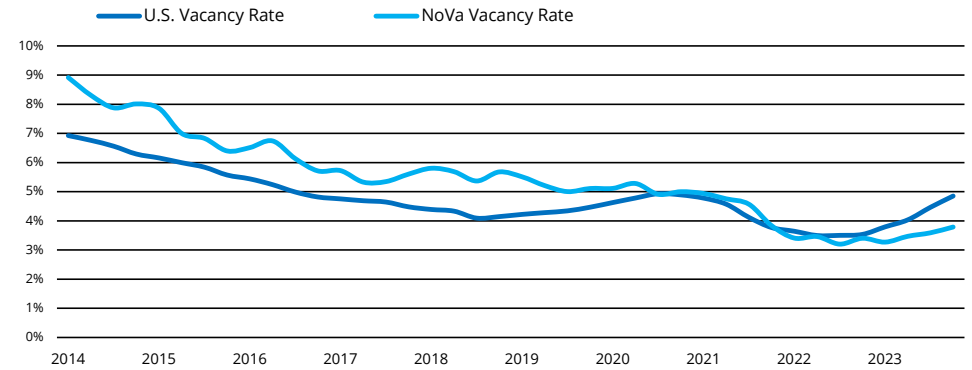


### VACANCY

#### Vacancy Rate Edges Up in Q4

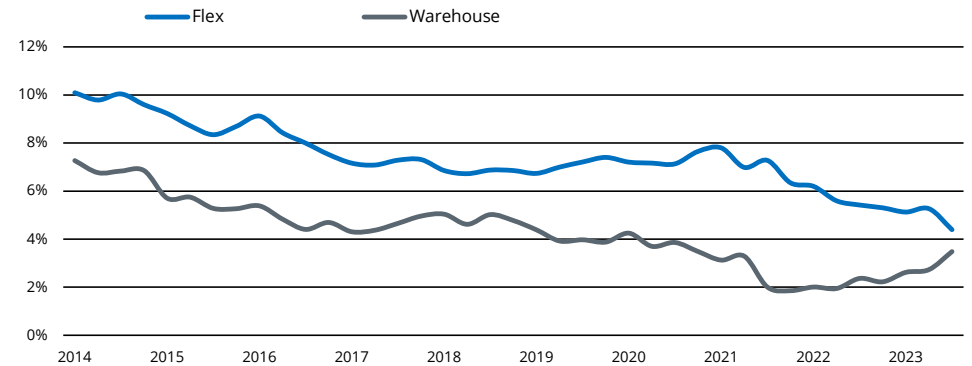
- The industrial market direct vacancy rate increased by 20-basis points to 3.8% in the quarter. This mirrors the vacancy rate for the third quarter of 2022. This is the highest vacancy rate for the market since the fourth quarter of 2021, but is still considered low and very healthy.
- Flex properties strengthened in the quarter with the vacancy rate decreasing 90-basis points to 4.3%. Warehouse properties struggled as the rate rose 70-basis points to 3.4%.
- The Dulles Corridor has the lowest vacancy rate, edging 30-basis points down to 2.5%. Spotsylvania/Stafford has the largest increase in vacancy rate, rising by 360-basis points, driven primarily by the delivery of 210 Centreport Parkway, which added 559,480 SF of vacant product to the market.
- The vacancy rate is likely to remain low through 2024. Although pre-leasing for construction is relatively low and could push the vacancy rate up at delivery, we expect these buildings to lease up quickly.

### DIRECT VACANCY RATE



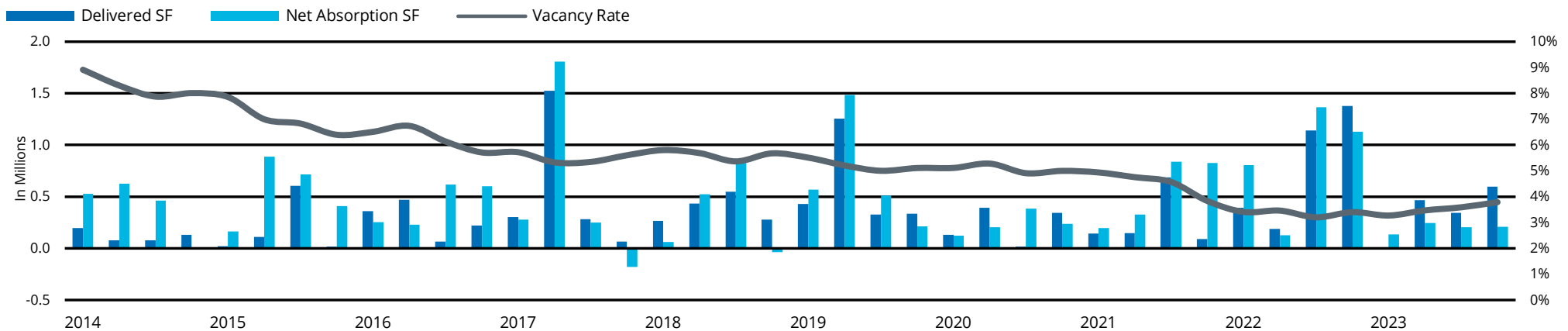
Source: CoStar, Transwestern

### DIRECT VACANCY RATE BY PRODUCT TYPE



Source: CoStar, Transwestern

### DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

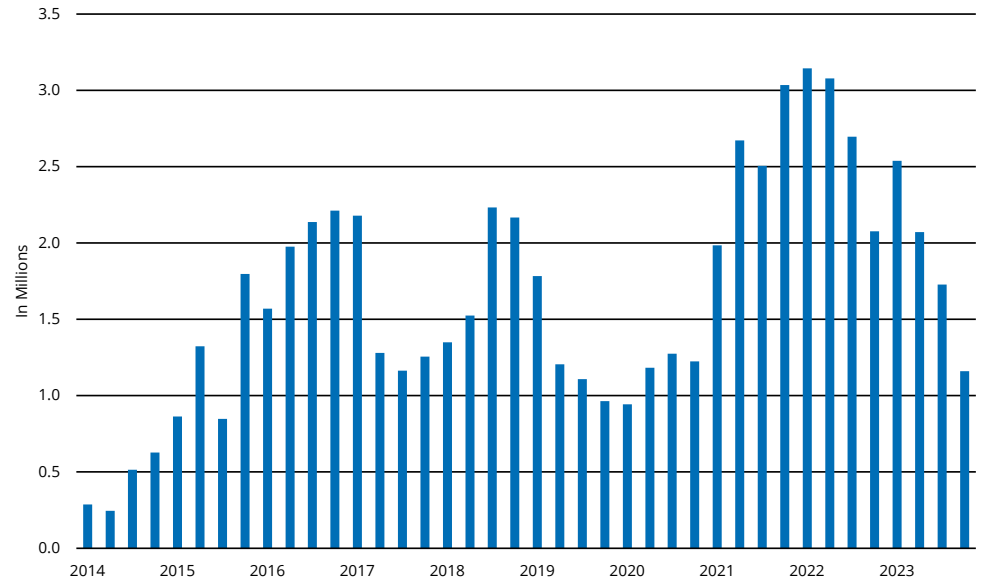


### UNDER CONSTRUCTION

#### Two Projects Deliver with Low Pre-Leasing Levels

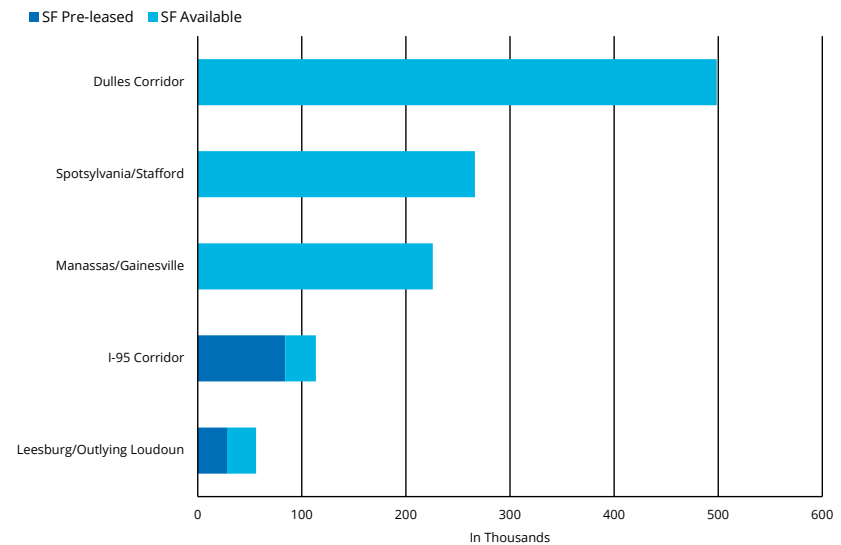
- Two projects delivered in the fourth quarter, adding 596,980 SF to the inventory with 4% pre-leased. The delivered projects include 210 Centreport Parkway in Spotsylvania/Stafford and 23541 Pebble Run Place in the Dulles Corridor.
- The current pipeline has 1.1 million SF under construction with 10% pre-leased across 12 projects. The largest project underway is 43035 John Mosby Highway in the Dulles Corridor, totaling 232,500 SF and is anticipated to deliver by the third quarter of 2024.
- There was one addition to the pipeline this quarter, 245 Shepardstown Court in Leesburg/Outlying Loudoun which totals 56,000 SF and is currently 50% pre-leased.
- All of the 12 construction projects are anticipated to deliver in 2024, with five anticipated to deliver in the first quarter of the year which total 410,962 SF and is currently 20.4% pre-leased.
- 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.

### UNDER CONSTRUCTION



Source: CoStar, Transwestern

### UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

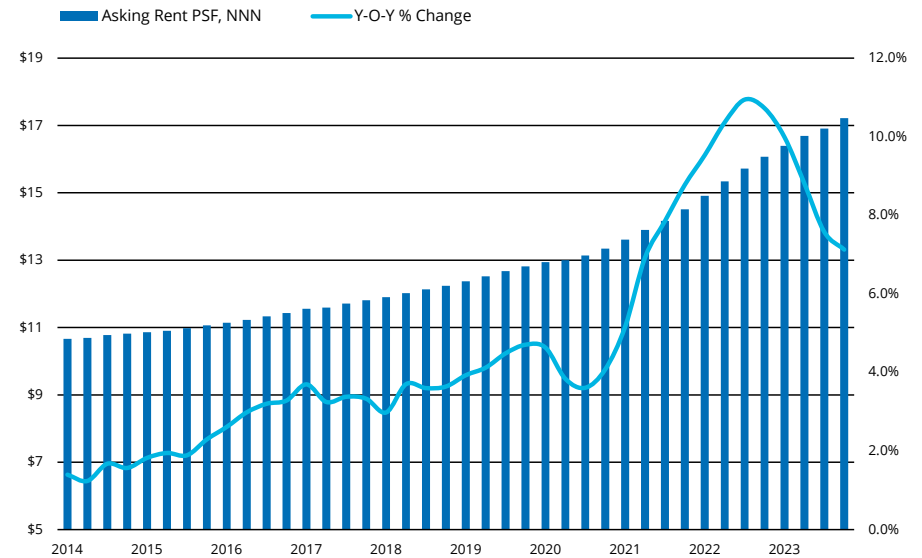


### RENTAL RATES

#### Asking Rent Maintain Strong Growth At End of 2023

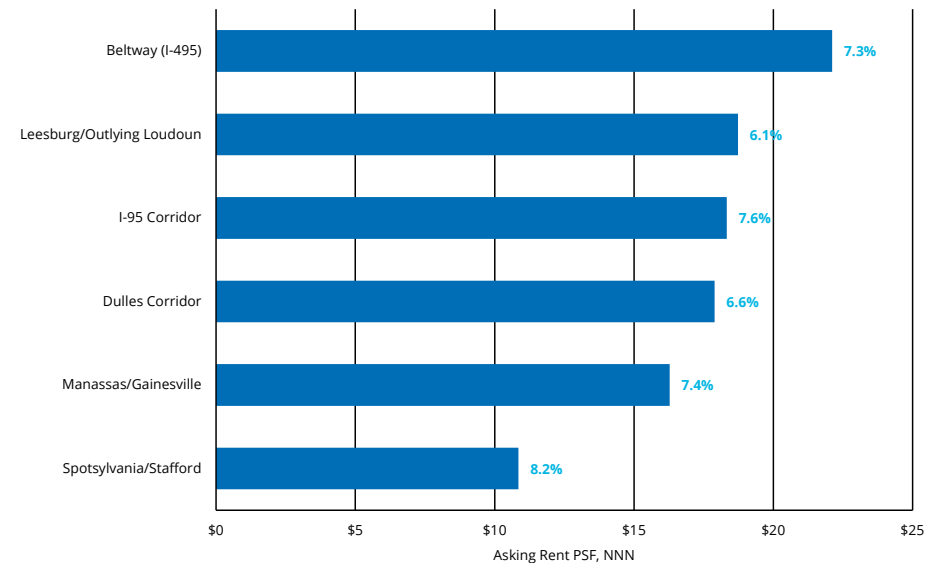
- Asking rents rose 180-basis points to \$17.21 PSF in the quarter and 7.1% year-over-year. Warehouse product experienced an increase of 350-basis points in the quarter, averaging \$16.21 PSF. Flex product rental rates rose 150-basis points to \$18.31 PSF.
- Spotsylvania/Stafford had the largest quarterly and year-over-year rental rate increases. The rental rates rose 200-basis points to \$10.85 PSF in the quarter and 8.2% year-over-year, up from \$10.03 PSF in the fourth quarter of 2022.
- The Beltway (I-495) submarket has the highest asking rent at \$22.11 PSF and saw an increase of 180-basis points in the quarter. While the second highest rates are held by Leesburg/Outlying Loudoun which average \$18.74 PSF and rose 160-basis points in the fourth quarter.
- We expect rent growth at healthy 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

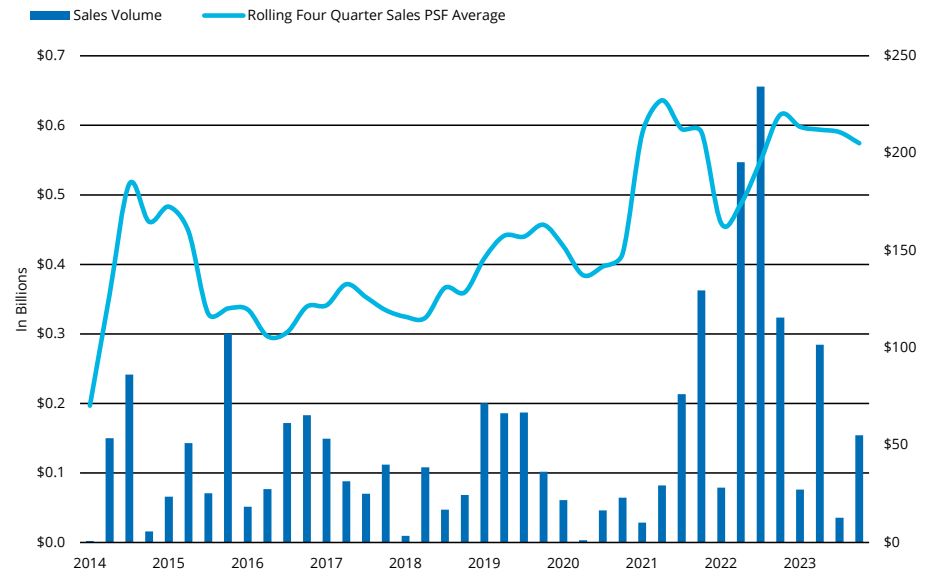


### SALES

#### Industrial Investment Sales Low but Up from Q3

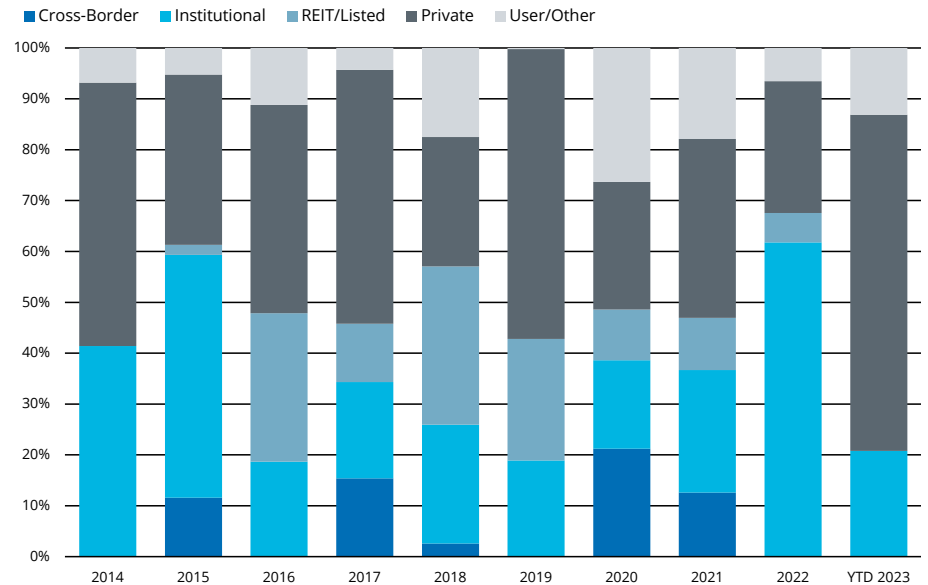
- There were nine transactions in the fourth quarter of 2023, totaling \$154.6 million or \$250 PSF. This marks a notable rise from the previous quarter which totaled \$35.6 million or \$213 PSF.
- The largest transaction was Caliber Partners purchasing 12875 Randolph Ridge Lane in Manassas/Gainesville for \$37.3 million, or \$307 PSF. Another notable sale was Amazon purchasing 7780 Doane Drive in Manassas/Gainesville for \$32.6 million, or \$315 PSF.
- Out of nine total transactions, seven were warehouse product that totaled 524,635 SF that sold for \$136.1 million, or \$260 PSF. The two flex properties that sold totaled 93,473 SF that sold for \$18 million, or \$193 PSF.
- We anticipate the sales transaction volume to remain stagnant in the early stages of 2024 as economic headwinds including elevated interest rates and inflation continue to effect investors decision-making.

### 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
MCCARTHY TIRE SERVICE OF VA	9061-9073 Euclid Ave	Manassas/Gainesville	Renewal	85,848
NJ SULLIVAN	7315 Groveton Rd	Manassas/Gainesville	New Lease	81,691
NEXTDAY CABINET	300 Centreport Pky	Spotsylvania/Stafford	Sublease	64,656
LABCORP	14280 Sullyfield Cir	Dulles Corridor	New Lease	44,689
CUSTOMS AND BORDER PATROL 	8424-8462 Terminal Rd	I-95 Corridor	Renewal	41,129
COMMERCIAL HVAC EXPRESS	44931 Falcon Pl	Dulles Corridor	New Lease	36,654

 = Transwestern deal

Source: CoStar, CompStak, Transwestern.

**NOTABLE SALES**

ADDRESS	SUBMARKET	SALE DATE	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
45900 OLD OX RD	Dulles Corridor	Nov-23	\$4,250,000	19,684	\$216	Hafsa Demirkiran	CRI Properties
22510 S STERLING BLVD	Dulles Corridor	Oct-23	\$13,200,000	42,901	\$308	Oppidan	Sterling Trade Group
12875 RANDOLPH RIDGE LN	Manassas/Gainesville	Oct-23	\$37,350,000	121,672	\$307	Caliber Partners	Principal
7780 DOANE DR	Manassas/Gainesville	Oct-23	\$32,697,063	103,850	\$315	Amazon	Link Logistics Real Estate
7760 DOANE DR	Manassas/Gainesville	Oct-23	\$28,792,937	96,710	\$298	Amazon	Link Logistics Real Estate
21301 BEAUMEADE CIR	Dulles Corridor	Oct-23	\$15,132,000	69,983	\$216	Equinix	Inter-American Development Bank

Source: CoStar, CompStak, Transwestern.

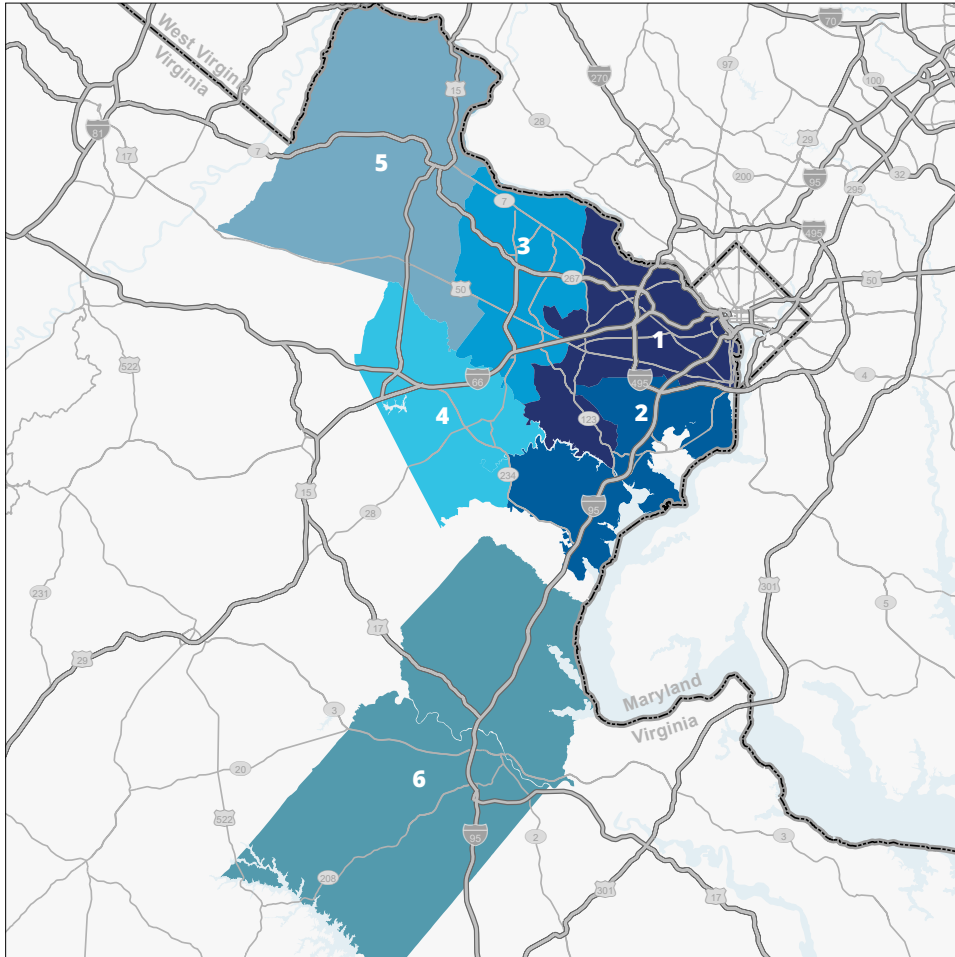


MARKET INDICATORS

All Property 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	2,621,739	131,188	5.0%	5.1%	0	(25,000)	(19,000)	\$22.62
WAREHOUSE	5,484,787	213,081	3.9%	3.8%	0	(4,000)	(29,000)	\$21.87
BELTWAY (I-495)	8,106,526	344,269	4.2%	4.2%	0	(29,000)	(48,000)	\$22.11
FLEX	8,394,838	627,566	7.5%	7.8%	0	32,000	113,000	\$19.43
WAREHOUSE	16,000,014	637,455	4.0%	4.0%	113,490	42,000	31,000	\$17.71
I-95 CORRIDOR	24,394,852	1,265,021	5.2%	5.3%	113,490	74,000	144,000	\$18.33
FLEX	16,683,895	631,021	3.8%	3.8%	30,000	80,000	63,000	\$18.33
WAREHOUSE	21,441,607	332,856	1.6%	1.6%	468,520	(54,000)	(125,000)	\$17.16
DULLES CORRIDOR	38,125,502	963,877	2.5%	2.6%	498,520	26,000	(62,000)	\$17.90
FLEX	1,084,739	39,574	3.6%	3.6%	0	0	0	\$19.09
WAREHOUSE	359,604	35,861	10.0%	10.0%	56,000	0	0	\$17.76
LEESBURG/OUTLYING LOUDOUN	1,444,343	75,435	5.2%	5.2%	56,000	0	0	\$18.74
FLEX	5,387,373	105,905	2.0%	2.2%	0	20,000	81,000	\$16.25
WAREHOUSE	13,979,406	400,300	2.9%	3.2%	225,872	73,000	664,000	\$16.29
MANASSAS/GAINESVILLE	19,366,779	506,205	2.6%	2.9%	225,872	93,000	745,000	\$16.28
FLEX	34,172,584	1,535,254	4.5%	4.6%	30,000	107,000	238,000	\$18.48
WAREHOUSE	57,265,418	1,619,553	2.8%	2.9%	863,882	57,000	541,000	\$17.59
<b>NORTHERN VIRGINIA TOTAL</b>	<b>91,438,002</b>	<b>3,154,807</b>	<b>3.5%</b>	<b>3.6%</b>	<b>893,882</b>	<b>164,000</b>	<b>779,000</b>	<b>\$18.03</b>
FLEX	1,313,555	23,979	1.8%	1.8%	0	11,000	94,000	\$12.73
WAREHOUSE	12,953,273	825,805	6.4%	6.4%	266,256	35,000	(78,000)	\$10.60
<b>SPOTSYLVANIA/STAFFORD TOTAL</b>	<b>14,266,828</b>	<b>849,784</b>	<b>6.0%</b>	<b>6.0%</b>	<b>266,256</b>	<b>46,000</b>	<b>16,000</b>	<b>\$10.85</b>
FLEX	35,486,139	1,559,233	4.4%	4.5%	30,000	118,000	332,000	\$18.31
WAREHOUSE	70,218,691	2,445,358	3.5%	3.6%	1,130,138	92,000	463,000	\$16.32
<b>NORTHERN VA WITH SPOTSYLVANIA/STAFFORD TOTAL</b>	<b>105,704,830</b>	<b>4,004,591</b>	<b>3.8%</b>	<b>3.9%</b>	<b>1,160,138</b>	<b>210,000</b>	<b>795,000</b>	<b>\$17.21</b>

Source: CoStar, Transwestern



**Northern Virginia Industrial Submarkets**

- 1** Beltway (I-495)
- 2** I-95 Corridor
- 3** Dulles Corridor
- 4** Manassas/Gainesville
- 5** Leesburg/Outlying Loudoun
- 6** Spotsylvania/Stafford

**RESEARCH METHODOLOGY**

The information in this report is the result of a compilation of information on flex and industrial properties located in the Northern Virginia and Spotsylvania/Stafford. 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.

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